CONTRACTS FOR THE SALE OF FEDERAL TIMBER

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
PUBLIC LANDS AND RESERVED WATER

OF THE

COMMITTEE ON
ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 848

A BILL TO PROVIDE FOR THE ORDERLY TERMINATION, EXTENSION, OR MODIFICATION OF CERTAIN CONTRACTS FOR THE SALE OF FEDERAL TIMBER, AND FOR OTHER PURPOSES

S. 916

A BILL TO PROVIDE FOR THE ORDERLY TERMINATION, EXTENSION, OR MODIFICATION OF CERTAIN CONTRACTS FOR THE SALE OF FEDERAL TIMBER, AND FOR OTHER PURPOSES

April 22 and May 9, 1983

Printed for the use of the
Committee on Energy and Natural Resources

U.S. GOVERNMENT PRINTING OFFICE
22-055 O WASHINGTON : 1983

S311-53

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CONTRACTS FOR THE SALE OF FEDERAL TIMBER

FRIDAY, APRIL 22, 1983

U.S. SENATE,
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10:35 a.m., in room SD-366, Dirksen Office Building, Hon. James A. McClure, chairman, presiding.

Present: Senators McClure, Hatfield, Nickles, Hecht, and Jackson.

Also present: Tony Bevinetto, professional staff member; and Craig Gannett, counsel for the minority.

OPENING STATEMENT OF HON. JAMES A. McCLURE, A U.S. SENATOR FROM THE STATE OF IDAHO

The CHAIRMAN. Good morning. The subcommittee will come to order.

The Subcommittee on Public Lands and Reserved Water will hear testimony today on S. 916 and S. 848 to provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber and for other purposes. Both bills will be placed in the record.

We will also receive testimony on other legislative concepts which would address the problems of the timber industry.

The hearing before this subcommittee today, along with those held last year on August 17 and 18, 1982, and in the Subcommittee on Forests, Family Farms, and Energy of the House Agriculture Committee, and in the Senate Agriculture Committee, will provide a full, complete, and continuing record on the entire problem.

We will schedule one more hearing to repeat portions of today's hearing to accommodate a member of the committee who is unable to be here today. We will announce the date of that additional day soon.

Many of you have traveled long distances to testify here. We have a full witness list, and I would ask all of you to summarize your written testimony in your oral statements. I ask that you limit that oral testimony to not more than 5 minutes. Your full written statement will be placed in the record. The hearing record will remain open for 10 days, but I would urge those who have testimony yet to come to provide it at the earliest possible time, and I might say to the witnesses who wonder about traveling a long way and taking the time to prepare testimony why we would limit you to 5 minutes—to listen to all that we can and give us the opportunity to ask a few questions. Otherwise we would have only your prepared statement and very little of the give and take that occurs in the questions.

I would like now to yield to the distinguished senior Senator from Oregon who is the prime mover of this legislation and who has been so very much concerned about the problems over the last couple of years, Senator Hatfield.

[The texts of S. 848 and S. 916 follow:]

II

98TH CONGRESS
1ST SESSION

S. 848

To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 17 (legislative day, MARCH 14), 1983

Mr. CRANSTON introduced the following bill; which was read twice and referred to the Committee on Agriculture, Nutrition, and Forestry

MARCH 23 (legislative day, MARCH 21), 1983

Ordered referred jointly to the Committees on Agriculture, Nutrition, and Forestry and Energy and Natural Resources by unanimous consent

---

A BILL

To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress finds that in order to avert widespread bankruptcies, sustain the flow of income from Federal forest lands to the Federal Treasury and to units of local government, and assist in restoration of employment, it is in the national interest to provide for the modification of certain contracts for the purchase of timber from Federal lands.

SEC. 2. (a)(1) Subject to the provisions of section 4, the Secretary of Agriculture for national forest lands and the Secretary of the Interior for public lands under their respective jurisdictions are authorized and directed to terminate, at the request of the purchaser, up to 40 per centum of the estimated timber volume specified in any purchaser's timber sales contracts bid prior to January 1, 1982, less any volumes cut, removed and paid for.

(2) In lieu of the 40 per centum limitation in paragraph (1), the appropriate Secretary shall terminate at the request of the purchaser, contracts bid prior to January 1, 1982 having a cumulative volume of fifteen million board feet, or terminate one contract bid prior to January 1, 1982, in its entirety.

(3) In addition to the contracts in paragraph (1), one contract per purchaser which was bid prior to January 1, 1982, but bid after the date of all other contracts to be terminated, shall be terminated by the appropriate Secretary at the request of the purchaser. The estimated timber volume terminated under this paragraph shall not exceed ten million board feet per contract.

(4) Contracts terminated by the appropriate Secretary pursuant to this Act shall require the purchaser to pay the Secretary holding the contract a sum equal to $3 per one thousand board feet or equivalent measure for the costs

which will be incurred by such Secretary in terminating such contracts and for reoffering the timber terminated for resale, not to exceed $20,000 per contract terminated.

(b)(1) The Secretary of Agriculture for national forest lands and the Secretary of the Interior for public lands are further authorized and directed to adjust, at the written request of the purchaser, the termination dates of any contracts for the purchase of timber, not otherwise terminated in subsection (a), that were bid prior to January 1, 1982, without penalty or payment that might otherwise be required for such adjustments, for a period not exceeding five years from the termination date in effect on the date of enactment of this Act.

(2) Any contract with the termination date adjusted for a period of four or more years under paragraph (1) shall require—

(A) removal of 25 per centum of the estimated timber volume by the conclusion of the third operating season of the additional period provided by the adjusted termination date; or

(B) payment by the purchaser of 25 per centum of the contract price, including all payments to date under the contract, by the start of the fourth operating season of the additional period provided by the adjusted termination date.

SEC. 3. A purchaser granted termination of a contract pursuant to this Act shall not, if otherwise eligible, be prevented on account of the termination from bidding on any resale of timber included in a terminated contract.

SEC. 4. (a) Contracts to be terminated pursuant to this Act under which no harvest has taken place shall be terminated in full.

(b) Contracts terminated by the appropriate Secretary pursuant to this Act under which harvest has begun, shall be terminated conditionally with the termination becoming final after the purchaser has completed all contractual obligations for the units on which harvest has begun. All remaining unharvested units must be terminated.

(c) The appropriate Secretary may not terminate a contract if he determines, in his discretion, that the remaining unharvested units or a logical unit as determined by the Secretary are not representative of all units that were to be harvested on the contract areas in terms of species and logging methods.

SEC. 5. Timber from terminated contracts shall be offered for resale in an orderly fashion as part of the normal timber sales program, and in a manner which does not disrupt regional markets or artificially depress domestic timber prices. Timber from terminated contracts shall be given preference for resale in the 1983 timber sales program. The

Forest Service timber sales offerings for Forest Service region 6 shall not exceed four and one-tenth billion board feet for fiscal year 1984.

Sec. 6. The Secretary of the Interior and the Secretary of Agriculture shall publish procedures for the implementation of the Act in the Federal Register within thirty days after the date of the enactment of this Act.

Sec. 7. The authority granted in sections 2, 3, and 4 pursuant to this Act shall expire one year after the date of enactment of this Act.

Sec. 8. (a) This section may be cited as the "Emergency National Forest Productivity Act of 1983".

(b) The Secretary of Agriculture shall establish a special program to remove dead, dying, diseased, downed, and insect or disease-threatened timber on national forest system lands. The purpose of this program shall be to make these lands more productive, through reforestation and other forms of enhancement, including road construction; to accomplish additional thinning and other forms of timber stand improvement; to reduce the hazards of wildfire; to reduce the damage from forest insects and disease; to accomplish more extensive utilization of low grade materials; to provide employment in and around communities that are dependent on timber production; and to provide increased public availability to firewood and other forest products.

(c) The Secretary, in carrying out the purpose of this section, may enter into contracts or other types of agreements, or may conduct the work, within the Department of Agriculture, if contractors are not available.

(d) In designing and implementing the program authorized under this section, the Secretary shall take steps to ensure that the program contributes to the productivity and environmental protection of the national forest system; including, minimum impact roads.

(e) There is hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this section: *Provided*, That the Secretary is authorized to carry out provisions of this section using regular national forest system and construction accounts after approval by the Appropriation Committees through the established reprograming procedures.

○

II

98TH CONGRESS
1ST SESSION

S. 916

To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes.

IN THE SENATE OF THE UNITED STATES

MARCH 23 (legislative day, MARCH 21), 1983

Mr. HATFIELD (for himself, Mr. MCCLURE, Mr. JACKSON, Mr. PACKWOOD, Mr. GORTON, Mr. STEVENS, Mr. MURKOWSKI, Mr. SYMMS, Mr. MELCHER, Mr. BAUCUS, Mr. BURDICK, Mr. GARN, Mr. HATCH, Mr. GOLDWATER, Mr. WALLOP, Mr. DECONCINI, Mr. LAXALT, Mr. ABDNOR, Mr. FORD, Mr. SASSER, and Mr. MATSUNAGA) introduced the following bill; which was read twice and referred jointly to the Committees on Energy and Natural Resources and Agriculture, Nutrition, and Forestry, by unanimous consent

---

A BILL

To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Congress finds that in order to avert widespread bankruptcies, sustain the flow of income from Federal forest lands to the Federal Treasury and to units of local government, and assist in restoration of employment, it is in the national interest to provide for the modification of certain contracts for the purchase of timber from Federal lands.

SEC. 2. (a)(1) Subject to the provisions of section 4, the Secretary of Agriculture for national forest lands and the Secretary of the Interior for public lands under their respective jurisdictions are authorized and directed to terminate, at the request of the purchaser, up to 40 per centum of the estimated timber volume specified in any purchaser's timber sales contracts bid prior to January 1, 1982, less any volumes cut, removed, and paid for.

(2) In lieu of the 40 per centum limitation in paragraph (1), the appropriate Secretary shall terminate at the request of the purchaser, contracts bid prior to January 1, 1982 having a cumulative volume of 15 million board feet, or terminate one contract bid prior to January 1, 1982, in its entirety.

(3) In addition to the contracts in paragraph (1), one contract per purchaser which was bid prior to January 1, 1982, but bid after the date of all other contracts to be terminated, shall be terminated by the appropriate Secretary at the request of the purchaser. The estimated timber volume terminated under this paragraph shall not exceed 10 million board feet per contract.

(4) Contracts terminated by the appropriate Secretary pursuant to this Act shall require the purchaser to pay the

Secretary holding the contract a sum equal to $3 per 1,000 board feet or equivalent measure for the costs which will be incurred by such Secretary in terminating such contracts and for reoffering the timber terminated for resale, not to exceed $20,000 per contract terminated.

(5) The timber sale appraisal allowance for the values of roads completed in connection with the sale of timber from public lands may, after setoff against amounts owed to the Secretary of the Interior, at the purchaser's election—

(A) be transferred to other contracts with the Secretary of the Interior held by the purchaser;

(B) be retained by the Secretary of the Interior for future application by the purchaser to other contracts for the sale of timber from public lands; or

(C) be assigned to another party with all rights attributable.

(b)(1) The Secretary of Agriculture for national forest lands and the Secretary of the Interior for public lands are further authorized and directed to adjust, at the written request of the purchaser, the termination dates of any contracts for the purchase of timber, not otherwise terminated in subsection (a), that were bid prior to January 1, 1982, without penalty or payment that might otherwise be required for such adjustments, for a period not exceeding five years from the termination date in effect on the date of enactment of this Act.

(2) Any contract with the termination date adjusted for a period of four or more years under paragraph (1) shall require—

(A) removal of 25 per centum of the estimated timber volume by the conclusion of the third operating season of the additional period provided by the adjusted termination date; or

(B) payment by the purchaser of 25 per centum of the contract price, including all payments to date under the contract, by the start of the fourth operating season of the additional period provided by the adjusted termination date.

SEC. 3. A purchaser granted termination of a contract pursuant to this Act shall not, if otherwise eligible, be prevented on account of the termination from bidding on any resale of timber included in a terminated contract.

SEC. 4. (a) Contracts to be terminated pursuant to this Act under which no harvest has taken place shall be terminated in full.

(b) Contracts terminated by the appropriate Secretary pursuant to this Act under which harvest has begun, shall be terminated conditionally with the termination becoming final after the purchaser has completed all contractual obligations for the units on which harvest has begun. All remaining unharvested units must be terminated.

(c) The appropriate Secretary may not terminate a contract if he determines, in his discretion, that the remaining unharvested units or a logical unit as determined by the Secretary are not representative of all units that were to be harvested on the contract areas in terms of species and logging methods.

SEC. 5. Timber from terminated contracts shall be offered for resale in an orderly fashion as part of the normal timber sales program, and in a manner which does not disrupt regional markets or artificially depress domestic timber prices. Timber from terminated contracts shall be given preference for resale in the 1983 timber sales program. The Forest Service timber sales offerings for Forest Service Region 6 shall not exceed 4.1 billion board feet for fiscal year 1984.

SEC. 6. The last sentence of section 4 of the Act entitled "An Act to enable the Secretary of Agriculture to construct and maintain an adequate system of roads and trails for the national forests, and for other purposes," approved October 13, 1964 (78 Stat. 1089; 16 U.S.C. 535) is amended by striking out the last sentence and inserting in lieu thereof "The Secretary is directed under such rules and regulations as he shall prescribe to permit the transfer of unused purchaser credit for road construction earned on any contract not completed by October 1, 1982 and for all future contracts from one timber sale to another timber sale to the same or different purchaser, except that such credit may not be used or transferred for use in a forest on one side of the one-hundredth meridian to a forest on the other side of the one-hundredth meridian. The Secretary is directed, under such rules and regulations as he shall prescribe, to treat as transferable earned purchaser credit, credit earned on timber sale contracts in effect on October 1, 1982, which before October 1, 1982, did not qualify as transferable earned purchaser credit, in an amount equal to the percentage of the total volume under such contract which is harvested after October 1, 1982. Where a purchaser exercises an available option to have the Forest Service construct a road, any payment to the Forest Service or credit received by the puchaser under such option shall be subject to the same provisions for transfer as earned road credits calculated on the engineer's estimated cost of construction in lieu of the agency's estimated cost of purchaser construction.".

Sec. 7. The Secretary of the Interior and the Secretary of Agriculture shall publish procedures for the implementation of the Act in the Federal Register within thirty days after the date of the enactment of this Act.

Sec. 8. Nothing in this Act shall be construed to—

(a) supersede the provisions of section 6(g) of the National Forest Management Act relating to the identification of the suitability of lands for resource management; or

(b) be applicable to lands within the national forest system which have been recommended for designation as wilderness or identified as further planning in Executive Communication 1504, Ninety-sixth Congress (House Document Numbered 96–119), unless designated otherwise by an Act of Congress.

SEC. 9. The authority granted in sections 2, 3, and 4 pursuant to this Act shall expire one year after the date of enactment of this Act.

SEC. 10. (a) This section may be cited as the "Emergency National Forest Productivity Act of 1983."

(b) The Secretary of Agriculture shall establish a special program to remove dead, dying, diseased, downed, and insect or disease-threatened timber on national forest system lands. The purpose of this program shall be to make these lands more productive, through reforestation and other forms of enhancement, including road construction; to accomplish additional thinning and other forms of timber stand improvement; to reduce the hazards of wildfire; to reduce the damage from forest insects and disease; to accomplish more extensive utilization of low grade materials; to provide employment in and around communities that are dependent on timber production; and to provide increased public availability to firewood and other forest products.

(c) The Secretary, in carrying out the purpose of this section, may enter into contracts or other types of agreements, or may conduct the work, within the Department of Agriculture, if contractors are not available.

(d) In designing and implementing the program authorized under this section, the Secretary—shall take steps to ensure that the program contributes to the productivity and environmental protection of the national forest system; including, minimum impact roads.

(e) There is hereby authorized to be appropriated such sums as may be necessary to carry out the provisions of this section: *Provided further*, That the Secretary is authorized to carry out provisions of this section using regular national forest system and construction accounts after approval by the Appropriation Committees through the established reprograming procedures.

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STATEMENT OF HON. MARK O. HATFIELD, A U.S. SENATOR FROM THE STATE OR OREGON

Senator **Hatfield**. Thank you, Mr. Chairman.

Since the hearings this subcommittee conducted last summer on the issue of timber relief there have been some welcome improvements in the Nation's economy, but the need for a remedy for this problem of high-priced timber contracts has not diminished.

The timber purchased by many companies prior to the drastic decline in housing production simply will not be harvested. The Government will not receive the revenue from many of these contracts if they are defaulted. Massive defaults would result in a massive disruption of the forest products industry and the Federal agencies which sell timber would take on a new major role. That would be of establishing and attempting to collect damages on these contracts.

To believe that a great deal of revenue flows to the Treasury from defaults is to ignore the realities of the situation. The money is simply not there. The most critical impact will doubtless be on the small business segment of the industry which in the West is nearly totally dependent upon Federal timber. These companies simply do not have assets to pay the damages, and the Government's role will become that of a liquidator.

We must deal with the realities of the situation, but it appears that the executive branch of our Government will not. I understand that the administration is unable to take a position on this issue today. I find this to be very curious. Last August the administration could not take a position in time for the first hearing this subcommittee conducted, and now 8 months later a similar paralysis exists, yet this follows a visit to my State by the President of the United States to discuss the problems faced by the forest products industry.

By now I am sure that most of those interested in the issue have seen or heard of the draft statement prepared by the Department of Agriculture, a statement which while it did not support the legislation before the subcommittee, proposed a positive, constructive alternative solution. This city is famous for its leaks, and I have come upon a copy of this draft statement which apparently failed to receive clearance by the Office of Management and Budget or anyone else in the administration. I would like to include this draft statement in the hearing record and to mention a few findings it contained. I don't know which of these the OMB found so unacceptable.

The **Chairman**. Without objection, it will be made a part of the record.

[The statement follows:]

STATEMENT OF
JOHN B. CROWELL, JR.
ASSISTANT SECRETARY FOR NATURAL RESOURCES AND ENVIRONMENT
UNITED STATES DEPARTMENT OF AGRICULTURE

Before The
Subcommittee on Public Lands and Reserved Water
Committee on Energy and Natural Resources
United States Senate

Concerning S. 916 and S. 848

April 22, 1983

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

We appreciate the opportunity to join again the Subcommittee's deliberations on legislation to grant relief to purchasers of National Forest System and public lands timber.

Since I last appeared before this Subcommittee in August, economic events have suggested that better times are ahead for the forest products industry. Economists now are suggesting a recovery in terms of real growth in the gross national product, after adjustment for inflation, at an annual rate in the three to five percent range through 1983. A recovery of the economy translates into recovery in the housing industry. Housing starts now are being forecast in the 1.4 to 1.6 million range for 1983, increasing to over 2 million by 1988. But I hasten to add that we have yet to see the hoped-for general recovery of this hard-pressed industry. Some mills remain shut down or continue curtailed operations, employees remain out of work, dependent communities have suffered, and timber sale receipts to the Federal Treasury so far this fiscal year have remained low. Thus, the concerns to which the bills are addressed remain pertinent.

Let me begin my statement with a review of the causes of the situation to which the bills are directed. Federal lands account for about 25 percent of the timber used to manufacture the lumber and plywood used in the United States. Most of this timber is harvested from lands managed by the Forest Service and Bureau of Land Management (BLM) and 60 percent of it comes from the Federal forests of the Pacific Coast States. The timber is sold by sealed bid or oral auction to forest products companies. Competition for this timber has been and remains high. Over 80 percent of the Federal timber sales are purchased by small businesses, which account for over one-half of the total volume.

The forest products industry is very directly tied to the homebuilding industry. The high level of activity by the homebuilders through most of the 1970's directly benefited the forest products industry, creating a high demand for wood products and resulting in keen competition for Federal timber. Bid prices for the timber rose rapidly in the period 1978 to 1980. The severe slump in homebuilding that began in 1979, because of continued high interest rates for long term borrowing, significantly reduced demand for and prices of lumber and plywood. The situation was compounded by two other factors.

First, the expectation of the industry--particularly of those mill operators who owned little or no timber--was that as timber from private lands became scarce, increasing amounts would be made available from the large inventories on Federal forest lands. This did not occur despite the fact that half the standing softwood sawtimber inventory in the United States today is on the National Forests. The National Forests can support a considerable increase in harvest rates. Sale programs in the last decade have averaged between 10 and 12 billion board feet annually. There was fierce competition for the limited timber offerings and, in some cases excessive bidding by purchasers. The producer with timber under contract at least had a hope of protecting his investment in processing facilities whereas the producer without timber would have been forced to close his operation.

The other factor contributing to high bid prices was uncertainty caused by controversy over designation of additional National Forest System lands as wilderness. The uncertainty arising from possible reduced levels of Federal timber available for sale coupled with continuing controversies over management of other roadless areas created concerns by purchasers about future timber supplies.

The effect of these factors, plus the pervasive factor of inflation, combined to increase directly prices bid for Federal timber. Prices sharply dropped in 1981 and 1982. In the first quarter of 1980, the average bid price of Douglas-fir stumpage on National Forests in western Oregon and Washington was $486 per thousand board feet. By the third quarter of 1982, this price had dropped to $93 per thousand board feet. By the first quarter, 1983 the average bid price had recovered to $182 per thousand board feet. The consequences of this drop in prices have been that the high priced sales purchased prior to 1981 have not been operated and rates of harvest for timber under contract have declined substantially, resulting in a build-up of volume under contract.

Many of the purchasers holding these contracts have been priced out of the market, leaving the reduced demand to be met by purchasers having lower operating costs. Those purchasers that have lower priced timber have been able to continue operating on a curtailed basis utilizing only that timber. The economic forces that have created this situation have affected all purchasers throughout the United States, forcing those with higher production costs to curtail production or shut down completely. Because so much of high-priced timber under contract is in the

Pacific Coast States the employment and other economic consequences of plant shut-downs have been particularly severe there..

To illustrate the magnitude of the problem being discussed here today, let me provide some relevant figures. We estimate that with housing starts moving to 1.8 million by 1985, 16.6 billion board feet in Oregon, Washington, California, and northern Idaho will remain unprofitable to harvest when the contracts terminate over the next several years. This is 46 percent of the total National Forest timber under contract. The bid value of this stumpage is over $5 billion.

It is likely that some of the purchasers will be able to "match" some of their lower priced timber against the higher-priced timber. This would require that they use their profits on some sales to offset their losses on others and assumes they would do this to avoid defaulting on the contract. It should be noted that the overall financial condition of some companies may preclude using profits on some to offset losses on others. Regarding that as the likely assumption, we estimate that 8.7 billion board feet or 33 percent of total National Forest timber under contract in Oregon, Washington, California and northern Idaho would not be harvested and would default.

A defaulted contract makes the purchaser liable for damages to the United States. The amount of damages is determined by reselling the timber, with the original purchaser becoming liable for the difference between the contract value at the expiration date of the original contract and the resale value, plus costs of the resale.

I emphasize to the Committee that we have been aware of the problems experienced by the holders of those contracts and have taken steps to alleviate them. Briefly, let me review these actions. Both the Forest Service and the Bureau of Land

Management have granted extensions of termination dates for the contracts. They Further extensions could be granted. They have changed their timber sale procedures to discourage future purchasers from buying and holding large volumes of timber under contract. The Forest Service and the BLM rearranged their timber sale program in 1982, in Oregon and Washington so as to sell contracts of shorter term and smaller volumes. This latter action was taken to allow purchasers an opportunity to acquire timber at prices which could be operated in prevailing market conditions. We believe this worked out as we hoped it would.

The legislation now being considered by the Subcommittee would provide additional relief to the holders of unprofitable contracts. The two bills would require the Secretaries of Agriculture and the Interior, fpr timber sales on Federal lands under their jurisdiction, and at the purchasers' request, to terminate a portion of the contracts held by purchasers and to adjust the length of those contracts not terminated for up to five years. The Administration opposes these provisions.

Allowing purchasers to terminate their contracts without penalty totally relieves them of their contractual obligations at the expense of the United States. Such relief contradicts the principles of a free market system. The provision for termination does have the desired effect of making high-priced timber again available to prospective purchasers through resale and thereby permits early operation of the resold timber to occur. However, we regard the termination provision as overly generous to the purchaser.

The Administration also opposes the provision of section 5 of the bill which would limit the volume of Forest Service timber sale offering in Region 6 for fiscal year 1984 to only 4.1 billion board feet. The average offered in Region

6 in the last 5 years has been (5.2) billion board feet. We believe that to the public interest in having reasonably priced wood products is not well served by placing an arbitrary limit on volumes sold in one of the principal timber producing regions of the country just at a time when it is likely that there will be a strong demand for manufactured wood products.

Contract term adjustment as authorized by S. 916 and S. 848 would allow purchasers up to five more years to operate their contracts without payment of a penalty. Under current administrative and contract procedures, the purchaser can obtain a contract extension upon request. An extension requires a reappraisal of the timber, sometimes (but not in the case of these high priced contracts) leading to a higher contract price; an extension permits imposition of additional obligations as the Secretary deems appropriate, such as prepayment of part of the contract price, or payment of interest. It is therefore within the existing power of the Secretary to grant further extensions to holders of existing contracts, even without costs to them, provided the Secretary deems that to be appropriate and can make the finding, as required by section 14(c) of the National Forest Management Act, "that the substantial overridding public interest justifies the extension"

Contract term adjustments, however, are available under current Administrative and contract procedures only as a consequence of force majeure occurrences, which do not include depressed market conditions. Granting the additional time to purchasers as proposed by S. 916 may lengthen contracts by as much as eight years, a situation we regard as unfair to those who bid lower prices for this same timber. It permits the purchaser to continue holding the timber, preventing its harvest. It gives the purchaser an advantage over his competitors by changing the rules under which the timber was initially bid. Nonetheless, the Administration has not entirely ruled out the further administrative granting of extensions if that ultimately proves to be the only means of avoiding widespread catastrophe.

S. 916 would also amend the existing provisions of 16 U.S.C. 535 in two ways. First, it would remove the present confinement on transferability of purchaser credit to timber sale contracts held by the same purchaser on the same National Forest. The new provision would allow tranferability of purchaser credit earned under any contract not completed by October 1, 1982, to any other timber sale contract, except that purchaser credit could not be transferred across the one-hundreth meridian. Second, S. 916 would expand the concept of transferable purchaser credit to include purchaser credit which has heretofore been ineffective, even through earned, because it exceeded the purchase price of the timber subject to the contract under which the purchaser credit was earned.

The existence of ineffective purchaser credit results in the United States obtaining a windfall in the form of a constructed road for which it has not had to reimburse the purchaser all of the estimated cost of construction. The Adminstration concurs with these amendments in principle. The Administration objects, however, to making heretofore ineffective purchaser credit retroactively effective to contracts in effect on October 1, 1982. Instead, the Administration recommends that ineffective purchaser credit be made effective only prospectively from the date of this Act. The reason for this recommendation is that bidding is affected by the presence or possible presence of ineffective purchaser credit; some purchasers have increased the amount of their bid by their estimate of the amount of ineffective purchaser credit. Raising the bid price by the amount of ineffective purchaser credit has the consequence of changing the ineffective portion of purchaser credit to effective purchaser credit; it costs the purchaser no more than he would spend for constructing the road, but by doing so, the purchaser may have increased the bid price of the timber above its true worth. Such bidder action would no longer occur after enactment of a provision for making ineffective purchaser credit effective. But by making such a provision retroactive, as S. 916 does, it provides an advantage to the purchaser--usually in a single-bid situation--who was awarded a sale without having bid away the ineffective purchaser credit. He gets something now he did not anticipate, whereas a competitor who bid away the amount of ineffective purchaser credit on another sale cannot have the same benefit. Therefore, we recommend that the rule be changed in such a way as to apply equally to all at the same time. Our recommendation can be accomplished simply by revising the second sentence of section 6 of S. 916 in the form appended to my statement.

We assure you, Mr. Chairman, that the Administration is not insensitive to the condition of the industry and the plight of purchasers of timber from National Forests and public lands. We believe there is an alternative approach which will provide opportunity for holders of high-priced timber sale contracts to terminate their sales while at the same time assuring a reasonable return to the Federal government and to the taxpayers on the expectancy created by existing contracts. This alternative also does not permit the holders of high-priced contracts to escape all their contracted-for obligations, but does relieve them from the full measure of liabilities for which they would be responsible on default. It also has the advantage of assuring the return to the market place of the timber volumes now subect to high-priced contracts in an orderly fashion, so as not to disrupt regional timber markets by dumping a spate of volume back into the market immediately after default out of necessity to establish a measure of damages from resale. It further avoids the compression effect of requiring operation of much larger volumes of timber than normal concentrated in a two to four year period as a result of extensions.

The alternative the Administration is proposing would be a "buy-out," whereby in return for immediate payment or for an enforceable promise of future payment, with interest and backed up by the same bonding protections the existing contracts now carry, a purchaser would be permitted to terminate and to turn back any contracts he chose. The volumes would subsequently be resold as part of the regularly scheduled timber sale program in the next two to four years.

The crux of this alternative, of course, is the buy-out price. The Administration recommends that it be 18 percent of the original contract price. We have arrived at that recommendation by an extremely complex analysis which required the making of a number of critical assumptions about the rate of housing starts each year for the next five years, about prices which could be realized from timber returned to the Government for resale, and about prospective bankruptcies and consequent inability to recover damages from defaulting purchasers, if no relief were available. The starting point in developing this proposal has been recognition that the United States has no reasonable expectation of recovering the full contract price for volumes currently subject to high-priced contracts. We have endeavored to estimate what the Government's realistic expectation of recovery would be if no relief were granted. Part of that amount could be recovered through resale of turned-back timber volumes, and the rest should be paid by the purchasers who want relief from their present obligations. The 18 percent figure is the mid-point of results generated from use of differing assumptions, keyed ultimately to estimates of housing starts. We believe that when all relevant factors are considered, the figure sets a fair price, particularly when coupled with reasonable allowance of time in which to discharge the obligation.

We are under no illusions that the alternative we propose will necessarily prevent all bankruptcies. Some purchasers bid so improvidently before 1982 that no measure short of full contrct forgiveness to everyone is likely to save them. But for those whose follies were not too great, the proposal offers a way out which protects the interests of their competitors and of the seller; the United States Government. The provision allowing 5 years in which to pay the buy-out price is quite comparable in many ways to any extension of existing contracts calling for interest on 18 percent of the contract price.

Attached to my statement is a draft bill which would implement the alternative we have proposed. We commend it to the Congress for prompt enactment.

Before closing, let me stress that while we are cognizant of the need to resolve the issue of high-priced contracts, the regular timber sale programs of the Forest Service and BLM must be maintained. This is important to insure availability of wood product supplies on a regular basis and in needed quantities both for dependent purchasers and so as to meet increased market demand in the future at reasonable prices. Timber from these new sales could be harvested promptly, thereby keeping purchasers operating. Furthermore, the availability of lower priced timber will permit averaging against those older, higher-priced sales which are not terminated so that the older sales can be harvested and processed. Continuing the regular sales program will also permit the accomplishment of our objectives of providing employment and maintaing the flow of receipts to the Treasury and to the counties.

That concludes my prepared statement. We look forward to working with the Congress as the legislation is developed. I would be pleased to answer the Committee's questions.

Senator **Hatfield**. I would give a few highlights of that leaked draft statement this morning.

No. 1, while increased housing starts are forecast, quote, "We have yet to see the hoped-for general recovery of this hard-pressed industry."

No 2, when housing starts moving to 1.8 million by 1985, 16.6 million board feet of national forest timber under contract in Oregon, Washington, California, and northern Idaho will remain unprofitable to harvest when the contracts terminate. This is 46 percent of the total national forest timber under contract with a bid value of over $5 billion.

No 3, it is estimated that 8.7 billion board feet or 33 percent of the total national forest timber under contract in this area will not be harvested and will default.

These are three of the findings in this draft statement, and these are established by the experts in the Department of Agriculture.

One sentence in the draft statement I find commendable, but I have to wonder if the concept expressed in it is one upon which the OMB based its disagreement, for it reads, "We assure you, Mr. Chairman, that the administration is not insensitive to the condition of the industry and the plight of purchasers of timber from national forests and public lands."

We all know that with the role of OMB as coordinator of the administration's position of various issues—and I think it is also interesting to comment at this point they tend to refuse to come and testify in such hearings as this today—it must approve statements before congressional committees on pending legislation of those other agencies of Government such as the Department of Agriculture, what Mr. John Crowell would have probably testified if he had had some position that the administration could support.

In this instance, it appears that the insensitivity to the problem does exist, that or ignorance, and I challenge the Office of Management and Budget to demonstrate its sensitivity to the issue or anyone else in the administration.

I must also state that I have deep disappointment, and it does not end with the administration. Recent bidding on timber sales indicates that we could head right back into this problem of inoperable timber sales, and I think that the timber industry ought to review its bidding.

Let me say to the timber purchasers that as far as I am concerned, there will be no relief granted from sales being sold today or in the future, and that this feverish bidding in the last few weeks does not help us to resolve the problem of the contracts bid prior to 1982. Clearly as we move toward a solution of this problem we must consider inclusion of far more stringent performance requirements and penalties for non-performance on future timber sales to avoid a repeat of this problem.

I really question the judgment of the timber industry at this point. I am very unhappy, needless to say, with their performance in the last few weeks. They don't seem to learn much. Time is running out if we are going to solve this problem on those contracts that we are trying to deal with, and while contract extensions have delayed default, some companies must decide in the near future whether to make required nonrefundable payments on them or default.

More than 20 Members of the Senate have joined together in support of legislation to resolve the problem. I hope that the administration will join in the effort to provide an equitable solution at some point in this effort.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you, Senator Hatfield.

Senator Jackson.

STATEMENT OF HON. HENRY M. JACKSON, A U.S. SENATOR FROM THE STATE OF WASHINGTON

Senator JACKSON. Mr. Chairman, I am grateful to you for scheduling this hearing on legislation to bring some much-needed relief to the timber industry.

This matter is of vital importance to all of us. As I understand it, we have two measures before us today—S. 848 introduced by Senator Cranston, and S. 916 which I am a cosponsor, introduced by Senator Hatfield. The two measures are similar except that Senator Cranston's bill does not contain provisions relating to purchaser road credits.

Senator Hatfield's bill is virtually identical to the measure reported favorably by our committee last September. We ran out of time, however, and the bill failed to reach the Senate floor before adjournment of the 97th Congress.

That was unfortunate indeed. The timber industry has been especially hard hit during the economic slump that has gripped this Nation for the past few years. While in my State of Washington the overall unemployment remains at approximately 13 percent, the rate is much higher for those engaged in timber-related jobs.

Counties that are heavily or solely dependent on logging are particularly hard hit. For example, figures range from 18 percent in Lewis County to as high as 29 percent in Skamania County.

Mr. Chairman, we cannot delay any longer in our efforts to provide relief to the countless individuals whose livelihood depends on the woods and the woods products industry. Without some type of legislative relief, there will be defaults and mill closings. People will lose their jobs, and the faint glow of economic recovery which began barely a few months ago in the timber industry will be snuffed out.

As one who is vitally interested in the economic well-being and vitality of the Pacific Northwest and the Nation, I look forward to working with Senator Hatfield and our Chairman and others in the Senate doing everything possible to secure expeditious passage of this legislation.

Finally, Mr. Chairman, I want to associate myself with the remarks of the senior Senator from Oregon, Mr. Hatfield, who has worked so long and hard to try to work out a solution.

I must say that if the industry goes back into another bidding spree it is simply inviting disaster. It is pure speculation, and it will counter all of the efforts that we are making to try to get some equitable relief. My interest is not just in the relief to the individuals, but also in the preservation of a competitive industry. I want to see the small operators in there as well as the larger ones The real danger here, Mr. Chairman, is that we will end up in a situation where the industry will become noncompetitive, and that would be a tragedy; a tragedy for those who believe in the free-enterprise system, and a tragedy to all of the consumers of timber products, especially our homebuilding industry. So this is a vital and a very important hearing in connection with the policy concerns that this committee has in maintaining a viable, competitive timber industry.

Thank you.

The CHAIRMAN. Senator Jackson, I thank you very much, and I want to associate myself with the remarks of the senior Senator from Oregon as well as the senior Senator from Washington has made, particularly focusing on two points that have been made—one, the concern that we all have that the administration has not been able to come to a conclusion as to what their policy is or should be. I will have something more to say on that a little later, and second, the statement that Senator Jackson had just now made with respect to the bidding on sales that are underway in the Northwest now.

If the bidding pattern reestablishes itself as it was in 1980 and 1981, it will destroy our ability in this body to be of any assistance to the industry. I hope everybody is listening and listening carefully and closely because I think that opinion is shared by many, and I hope that we can continue the efforts that are underway to make timber available so that the troubled industry will have some volumes to work on that are not tied up in those earlier high-cost contracts.

We will continue to work with the administration to make certain that those contracts are available, that those volumes will move to the market.

That is only a part of the problem. If in that process we again get the pattern of bidding that occurred earlier that has caused the problem, there will simply be no opportunity for us to move this kind of legislation. I don't believe that is the reason the administration has withheld comment today. I believe that it stems from a different sort of a problem within the administration.

I am grateful to the Senator from Oregon for having pointed to that internal struggle and the obvious results of it today.

Senator Hecht.

Senator HECHT. No statement.

The CHAIRMAN. I might just note at this point as a follow-on to what I have said that in April of this year, on April 7 before the Appropriations Committee we did have the administration appear and testify in defense of their budget provisions and had the opportunity at that time to ask questions of Chief Peterson and Secretary McCleary, and I asked them at that time which is now only just a short while ago when they would be prepared to take a position and give us some advice, and Mr. McCleary, according to the transcript of that record, said, "We are very aware of the problem that this situation is creating, and it has a very high priority. We are looking at this existing information. There has been a major study of this to really see what is out there, what we have, what might likely happen under various housing starts, and to look at options and ways that we might resolve this either administratively or through legislation, and this is a very high priority of the Department," end of quote.

I have one point a little further in the transcript. Mr. McCleary responded to a further question that I asked, and he said, "We put a high priority on this and should be ready to discuss what we have found and what our options and recommendations are within the next few weeks," end of the quotation.

It seems to me that he was speaking in good faith. I do not doubt that he was speaking in good faith when he made that statement, and he meant it, believed it, but I am as distressed as is the Senator from Oregon that the administration finds themselves unable to make a statement of any substance or real meaning here this morning. I think they know and I am sure the Senator from Oregon knows that is not the last we will say or hear about that subject.

Senator Metzenbaum has a statement as does Senator Cranston which will be included in the record at this point followed by a statement of Mr. Charles E. Nickles, general treasurer and director of the United Brotherhood of Carpenters and Joiners of America which will appear in the record at this point.

I will take the liberty of just pointing out one statement by this union that says, "That is why the United Brotherhood of Carpenters and Joiners of America supports S. 916."

We are grateful for that support.

[The statements of Senator Metzenbaum, Senator Cranston, and Mr. Nichols follow:]

U. S. Senator Howard M.

METZENBAUM

of Ohio

Committees:
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FOR IMMEDIATE RELEASE
April 22, 1983

STATEMENT BY SENATOR HOWARD M. METZENBAUM BEFORE THE ENERGY AND NATURAL RESOURCES COMMITTEE ON TIMBER CONTRACT RELIEF. April 22, 1983

MR. CHAIRMAN, business leaders are always the first to rail against excessive government regulation of the private sector. But increasingly, they are also the first to seek a government bail-out if their fortunes turn sour.

The timber industry is the latest to ask the federal government to protect it from the consequences of its own poor business decisions. They have quickly abandoned their supposed deep commitment to an unfettered free enterprise system. Some may call that enlightened self interest. I call it hypocritical. These companies would not let another company out of a contract. They certainly would scream bloody murder if the government tried to back out of a contract with them. Why should they be let off the hook?

The facts surrounding this issue are clear. Timber companies bid up the prices of high quality federal timber 300,400 and even 500 percent above the appraised value of the timber. Nobody forced them to behave that way. It was their decision. Even in early 1982, well after the industry was deep into a recession, some companies were still bidding 200 percent and more above appraised value. Now their decisions look bad. So they want Washington to bail them out. The Congressional Research Service estimated that the bail out would cost the American taxpayers $2 billion.

Now we are told by supporters that we must pass this bill to help the little guy, the small saw mills. But that is not who will be helped by this legislation.

A CRS study found that nearly one-third of the benefits from contract termination would flow to eleven companies, including such industry giants as Boise Cascade, Sierra Pacific, Champion International, Willamette Industries, Louisiana Pacific, Diamond International, Southwest Forest Products and Roseburg Lumber Co.

Are any of these companies in serious trouble? The answer, of course, is no. Boise Cascade just announced that its first quarter net was up nearly 100 percent. Crown Zellerback, another big beneficiary, just reported first quarter profits up 264 percent. Roseburg, the firm which would benefit most from termination, found time out from lobbying for this bill to buy a fiberboard plant from Louisiana Pacific.

Louisiana Pacific's annual report discussed the problem of holding high-priced timber. Then, it reassured shareholders that "even assuming under current depressed market condidtions that (high priced) contracts were harvested and converted together with logs from other sources, as is normal practice, no significant loss overall would result."

Willamette Industries similarly reassured shareholders in its annual report. Contract extensions, it said, coupled with recent purchase of lower priced timber, "will allow the company to fulfill its timber contract commitments satisfactorily."

What of the smaller firms? The fact is many of them oppose this bill. It is also worth noting that I sought last year to target assistance to firms that could meet an economic needs test and supporters refused even to allow my amendment to come to a vote.

Gifford Powell, General Manager of Clark and Powell Lumber Co. in Junction City, Oregon, runs a family-owned sawmill with 45 employees. It is currently shut down because it cannot buy timber at a break even price. But he opposes the bail out.

"It would be a travesty of justice if the rules were changed after the game was played and those of us that played by the rules were forced out of business while the speculators and the hoarders remained."

Sam Konnie, Vice President of the Swanson Brothers Lumber Co. in Noti,Oregon, echoed those views. His firm got stuck with some high priced contracts. But it has not run to Washington for help.

"We felt then and still feel that when we enter into a contract, we will have to live up to it and we bid our timber sales with that in mind. Our company has logged the higher priced sales we were able to buy and took our lumps...

"Our problem was not brought on by the recession, but by pre-clusive and speculative bidding that was being engaged in by the very people that are weeping crocodile tears and crying for bail outs...in our opinion, this bill will only make the situation worse. If we allow the ones who got us into this mess to walk away scot free, it is naive to think that they won't return with renewed faith that they can't lose."

Finally, we come to the issue of the road credits. That provision has no business being in this bill. It is totally unrelated to the economic issues facing the industry. The inclusion of the ineffective road credit provision is nothing less than an effort by big timber to win adoption of something it could not possibly pass if forced to stand on its own.

President Ford properly rejected the industry's bid to activate ineffective road credits a few years ago as an outright subsidy to the industry. It is exactly the same today.

Mr. Chairman, I will do everything I can to defeat this bill. It is bad policy. It is unnecessary. It will cost the taxpayers billions and it rewards speculation and poor business decisions. In sum, there is absolutely no redeeming feature to this bill.

STATEMENT BY SENATOR ALAN CRANSTON BEFORE THE SENATE ENERGY AND NATURAL RESOURCES COMMITTEE SUBCOMMITTEE ON PUBLIC LANDS IN SUPPORT OF S. 848, FEDERAL TIMBER CONTRACT RELIEF LEGISLATION -- April 22, 1983

Mr. Chairman, I appreciate the opportunity to testify in support of S. 848, a bill I have sponsored to provide relief to purchasers of timber from federal lands.

As members of the Energy and Natural Resources Committee know, in the last few years timber companies bid high prices for timber on national forest and BLM lands, anticipating a boom in the housing industry. But housing construction has fallen off sharply and the timber industry is now suffering from the lack of demand for lumber and the consequent low lumber prices. Many companies cannot harvest the timber on federal lands without sustaining substantial losses, and thus are likely to default on their contracts. Under existing law, the timber companies would have to pay a penalty for defaulting. This would force some companies into bankruptcy -- unless the law is changed.

I believe that it is in the pulbic interest to grant relief to timber companies, which often are the single largest employers in a region and generate important income from federal lands to local governments. Both S. 848 and S. 916 would provide such relief by authorizing the Secretaries of Agriculture and Interior to modify any federal timber sales contract bid prior to January 1, 1982. The modification could include termination of a portion of the timber sales contracts and extension of the termination dates for up to 5 years.

S. 916 contains an additional provision permitting the transfer of unused purchaser road credits between national forest and timber purchasers. Such credit is now limited to the estimated value of the timber. Conservationists are concerned that this purchaser credit provision could result in road construction in undeveloped areas with marginal timber. Moreover, they point out that the provision is not designed to help timber companies overcome the current problem of inoperable timber contracts, but is a permanet change in law. I share their concern about this provision, and urge that it not be included in any timber contract relief legislation approved by this Committee.

I do geel strongly that the issue of helping our nation's distressed forest products industry must be faced up to. I urge the Senate Energy and Natural Resources Committee to act on this matter.

Thank you.

Testimony of Charles E. Nichols, General Treasurer and Director
United Brotherhood of Carpenters and Joiners of America
Submitted to the Public Lands and Reserved Water Subcommittee of the
Senate Energy and Natural Resources Committee

April 22, 1983

My name is Charles E. Nichols and I am General Treasurer and Legislative Director of the United Brotherhood of Carpenters and Joiners of America. We have over 800,000 members, the large majority of whom are employed in the construction industry and in industries that supply or are otherwise closely tied to home building - lumber - plywood, cabinets, millwork, furniture, and other wood products. Because many of our members are so deeply involved in the wood products industry, I am very pleased that the Committee is holding these hearings.

The housing industry and the lumber industry, as we know, are just coming out of a depression. For the past three years the market for wood products has been nothing short of disastrous. 1982 edged out 1981 as the worst year for homebuilding since 1946. Only 1.07 million housing units were built last year. The effect of that poor market was felt in many communities, especially in the Northwest, when sawmills and plywood mills, often the major source of employment in town, were forced to close or curtail production. Nationwide, unemployment in the lumber and wood products industry at time exceeded 20 percent. But in those towns the unemployment rate sometimes exceeded 60 percent. The hardship caused by mill closures and the damage to the social fabric of the communities is hard to appreciate for anyone who has not experienced it.

In recent months there has been a recovery in homebuilding that is most encouraging. In the first quarter of 1983 housing starts were 87 percent above their level for the first quarter of 1982. Most lumber and plywood mills have gone back to work and the industry is now operating at about 90 percent of normal levels. But the housing start rate of about 1.7 million units per year that we have seen in recent months are still far below the rates the industry was led to expect for the 1980's. Those expectations resulted in bids for timber that would have been justified by the levels of demand for wood products that had been forecasted.

Even with the recent recovery in the market, the prices for lumber and plywood are below there 1978-79 levels and are far below prices that would have been justified by the expected homebuilding of the 1980's. Many companies are now caught in a cost-price squeeze that will force them to close unless they can get adequate supplies of lower priced timber. Given the relatively fixed supply of timber in the Northwest, the only way to get enough lower priced timber to continue operations is for the price on existing contracts to be somehow changed, that is why the United Brotherhood of Carpenters and Joiners of America supports S.916. We see the bill as a way to allow mills to continue creating the employment opportunities needed in the communities that had been so devastated in the past three years.

The **CHAIRMAN**. I had expected at this point to call as a witness the Honorable John B. Crowell, Assistant Secretary for Natural Resources and Environment, the Department of Agriculture, to be accompanied by R. Max Peterson, and they will be notable by their absence this morning.

We will proceed then to hear what is designated on the witness list as panel No. 1, the Honorable Barry Keene, Senator, Second District, State of California Legislature, Sacramento, Calif.; Mr. Bill Coates, County Commissioner, Plumas County, Calif., Quincy, Calif.; Dave Cooper, County Commissioner, Linn County, Oreg.; Ray Doerner, Executive Director of the Association of O&C Counties, Roseburg, Oreg.

Gentlemen, I will again remind you of our request that you summarize your written statements. Your written statements will, of course, appear in full in the record. If we can get those oral statements then in the record, we can then proceed to ask a few brief questions.

You are all very welcome here as elected representatives of the people in your areas. We realize that you do speak for more than just yourselves in your elective capacity.

Mr. Keene.

STATEMENT OF HON. BARRY KEENE, STATE SENATOR, SECOND DISTRICT, STATE OF CALIFORNIA, SACRAMENTO, CALIF.

Senator **KEENE**. Thank you very much, Mr. Chairman and distinguished members.

Off the bat let me say that I heartily endorse Senator Hatfield's legislation and Senator Cranston's as well. I am California State Senator Barry Keene.

The **CHAIRMAN**. Can you pull the microphone just a little closer to you? Otherwise you will not be heard in the back of the room.

Senator **KEENE**. I am California State Senator Barry Kenne. I represent the north coastal counties of California, and that constitutes one of the finest commercial timber growing regions in the world. Things are a little bit slow in the forests these days, but that point has been made so I won't make it again here.

I am also a member, a former chairman of the Western State Legislative Forestry Task Force which, incidentally, is now chaired by an Idahoian. That task force has not taken a specific position, taken a position on specific legislation but has endorsed the need for contract relief in one of its resolutions which is attached to the documents that I provided for you.

There are about three objections that I have heard to providing the sort of relief that is contemplated in the Hatfield and Cranston bills.

The first is that we have to stop bailing out the giants of industry.

The second is that a contract is a contract and that the burdens of a bad contract come along with the benefits of a good one.

The third, of course, are concerns about deficits and the fact that the Treasury can't afford additional losses. Let me briefly address each of those points.

First, we are talking about a relief that does not chiefly benefit the timber industry equivalent of Lockheed and Chrysler. Most of those companies have their own private timber land holdings and they do not rely to anywhere near the same degree as some of the smaller companies on U.S. Forest Service contracts.

Now some of those large companies, most of them, almost all of them, also seek relief. They do deserve equitable treatment, but some have argued and will argue to you today that it would be in their best interests to reject relief and have a smaller, have the financially weaker companies retire from the market.

Now is that reduction of competition really in the best interests of the American consumer? I certainly suspect not, and I hope that you believe not as well. We are still a nation in which much of our productivity, not to mention creativity, is found in the small business sector.

The second argument that these businesses simply got the short end of a fairly negotiated contract is a hollow one. One of the parties to the contract—the Federal Government—in pursuit of other economic goals had the power to and did tamper with the marketplace in a way that could not have been anticipated by even the most conservative and prudent of business people, and let me say as an aside that I appreciate your concerns about speculation and increased bidding in the marketplace today. Those people would certainly not have the standing to complain that they had no prior warning, but the other individuals that we are talking about in the legislation that is currently contemplated did not have that sort of warning. They did not know about the unprecedented deficits and equally unprecedented policy of tight money supply that would dry up the housing market on which the demand for lumber depends, so what happened was that the value of the Federal timber that was contracted for was reduced to virtually nothing and in fact meant a loss to these individuals by deliberate Federal policy decisions that were designed in good faith to achieve other economic objectives that were regarded as simply more important than the interests of these individuals.

For those businesses it is not as if the situation were avoidable. For them and the rural communities that depend upon them it is not as if the injury were a remote kind of injury so it would be unfair, it would be unjust, and it would be frankly oppressive for Government to enforce these contracts to the letter.

Since we in government helped create the problem, we in government cannot self-rightously and indignantly exact our pound of flesh. We did not do so on our State forests in California where relief was afforded in legislation that I sponsored and you really should not do so with respect to the national forest contracts.

That brings me to my final point. In California we have concerns that the legislative relief might result in a net loss to the general fund, and we found that probably quite the opposite was true. Thousands of timber-related jobs were saved and those people are paying income and sales taxes today rather than being on welfare or unemployment. Contracts were honored, though at a lower rate, rather than forcing companies into default with litigation expenses to the State and competition was not driven from the marketplace.

That was avoided, and those companies continue to pay taxes today.

Thank you very much for the opportunity to appear, Mr. Chairman.

[The prepared statement of Senator Keene follows:]

April 22, 1983

Statement of California State
Senator Barry Keene
to the
Subcommittee on Public Lands and Reserved Water of the
Senate Energy and Natural Resources Committee

Mr. Chairman and Distinguished Members:

I am California State Senator Barry Keene, and I represent the north coastal counties that constitute one of the finest commercial timber-growing regions in the world. However, the huge redwood and Douglas fir forests are ominously quiet these days.

I am also a member and former chairman of the Western States Legislative Forestry Task Force. It has not taken a position on specific legislation but has endorsed the need for contract relief.

Three principal objections to providing that relief are put forth:

1. We must stop bailing out the giants of industry;
2. A contract is a contract -- the burdens come along with the benefits;
3. The treasury cannot afford any additional losses.

Let me address each of the points.

First, we are not talking about relief that chiefly benefits the timber industry equivalents of Lockheed and Chrysler. Most of those companies have their own private timberland holdings and do not rely, to anywhere near the same degree as small companies, on U.S. Forest Service contracts.

Moreover, while most large companies seek relief and deserve equitable treatment, others have argued it would be in their best interests to reject relief and have the smaller and financially weaker companies retire from the marketplace. Is that reduction of competition really in the best interests of the American consumer? I suspect not. We are still a nation in which much of our productivity, not to mention creativity, is found in the small business sector.

Second, the argument that these businesses simply got the short end of a fairly-negotiated contract is a hollow one. One of the parties to the contract -- the federal government -- in pursuit of other economic goals had the power to, and did, tamper with the marketplace in a way that could not have been anticipated by even the most conservative and prudent of businesspeople. Unprecedented deficits, and an equally unprecedented policy of tight money supply, dried up the housing market on which the demand for lumber depends. In short, the value of the federal timber contracted for was reduced to virtually nothing by deliberate federal policy decisions designed to achieve other economic objectives regarded as more important.

For those businesses, it is not as if the situation were avoidable. For them and the rural communities that depend upon them, it is not as if the injury were remote. It is unfair, unjust, and frankly oppressive for government to enforce these contracts to the letter.

Since we helped create the problem, we in government cannot self-righteously and indignantly exact our pound of flesh. We did not do so on our state forests in California, where relief was afforded in legislation that I sponsored, and you should not do so on the National Forests.

That brings me to my third and final point. In California, we found that legislative contract relief probably did not result in a net loss to the general fund, quite the opposite.

Thousands of timber-related jobs were saved and those people are paying income and sales taxes today rather than being on welfare or unemployment.

Contracts were honored, though at a lower rate, rather than forcing companies into default with costly litigation expenses to the state and a poor chance of full recovery.

Competition was not driven from the marketplace, and intensified concentration of the industry was avoided. Those companies that survived as a result of the legislation continue to pay taxes today.

My constituents are independent and self-reliant. We are optimistic we can work our way out of the current depression in the wood products industry. May I remind you that while most of us sacrificed to contain inflation, no segment of business or the American public suffered more than those of us dependent on the well-being of the forest products industry. Were I here asking for a handout or a bailout, I would be ashamed. I'm asking for equity, for redress, for some offset for the harm done by our rearrangement of economic priorities and harsh monetary policies, however necessary in other respects those policies may have been.

Thank you for allowing me to appear.

# # # #

Senate Bill No. 1799

CHAPTER 324

An act to add and repeal Section 4651.5 of the Public Resources Code, relating to state forests, and declaring the urgency thereof, to take effect immediately.

[Approved by Governor June 29, 1982. Filed with
Secretary of State June 29, 1982.]

LEGISLATIVE COUNSEL'S DIGEST

SB 1799, Keene. State forests: economic emergencies: timber sales contracts.

Under existing law, the Director of Forestry may enter into contracts for the cutting and sale of timber and other forest products from state forests.

This bill would extend, at the request of the purchaser of timber, all contracts for the sale of timber products from state forests awarded during calendar years 1979, 1980, and 1981, which were in effect on June 30, 1982 through October 31, 1983, on specified terms and conditions. The bill would also make legislative findings in that regard.

The bill would take effect immediately as an urgency statute.

The people of the State of California do enact as follows:

SECTION 1. This act shall be known and may be cited as the Forest Industry Employment Relief Act of 1983.

SEC. 2. The Legislature finds that adverse economic conditions have disrupted the harvesting, manufacturing, and marketing of forest products in the state in ways that impair the ability of state government to protect, develop, and utilize the resources of the state forests. The Legislature further finds and declares that relief to purchasers of timber from state forests is necessary to the end that (1) these purchasers may sustain and increase their workforces and lessen costs to the state that would otherwise arise from employment security and human services programs, and that (2) state and local revenues may be increased as a result of employment and economic activity.

SEC. 3. (a) Notwithstanding any other provision of law, the expiration date of all contracts for the sale of timber from state forests pursuant to Section 4650 of the Public Resources Code which were awarded during calendar years 1979, 1980, and 1981, and which, by their original terms or any extensions that may have been granted thereto, were in effect on June 15, 1982, at the request of the purchaser, shall be extended through October 31, 1983, if the purchaser furnishes an adequate performance bond for the contract through October 31, 1983.

The purchaser under the contract shall have until 15 days after the effective date of this act to submit a request to the Director of the Department of Forestry for an extension of the contract.

(b) Timber harvested pursuant to an extended contract shall be paid for according to the following discounted payment schedule:

(1) Timber harvested from June 15, 1982, to December 31, 1982, inclusive, shall be paid for at 50 percent of the bid price specified in the contract.

(2) Timber harvested from January 1, 1983, to June 30, 1983, inclusive, shall be paid for at 70 percent of the bid price specified in the contract.

(3) Timber harvested from July 1, 1983, to October 31, 1983, inclusive, shall be paid for at 80 percent of the bid price specified in the contract.

(c) Notwithstanding subdivision (b), all advance stumpage payments received by the department before June 15, 1982, shall be applied to harvested timber at the bid price. The payment schedule specified in subdivision (b) shall not apply to any contract with respect to which any penalty or interest has accrued, until such time as the penalty and interest, both, have been paid in full in cash or in another manner satisfactory to the director.

(d) Any penalty or interest payments, or both, which have accrued prior to June 15, 1982, and which have not been paid when due, shall bear interest to and including June 15, 1982, at the rate authorized by law. Any penalty or interest payments, or both, which have accrued prior to June 15, 1982, and which have not been paid when due shall bear interest after June 15, 1982, at the rate of 15 percent per annum until paid. Notwithstanding any provision of any contract extension granted prior to the effective date of this act to the contrary, no penalty or interest payment otherwise provided by that extension shall accrue between June 15, 1982, and October 31, 1983. This subdivision shall not prohibit the director from imposing any penalty or interest payment provided by law in the event there is default of payment due for timber harvested after June 15, 1982.

(e) Any bid deposit which has been received by the department pursuant to any extended contract shall be applied to the final payment of the sale of timber at the applicable payment schedule specified in subdivision (b).

(f) Any bid deposit which has been received by the department pursuant to any extended contract before June 15, 1982, is available for expenditure, when appropriated by the Legislature, during the fiscal year in which it is received or in any subsequent fiscal year during which the contract is in effect.

(g) The purchaser of timber pursuant to any contract specified in subdivision (a) shall not be required to harvest any volume of timber in an amount greater than the volume of timber estimated in the advertisement for bid for that contract.

(h) For purposes of this act, timber shall be deemed harvested at the time the logs are removed and scaled.

SEC. 4. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to minimize unemployment and economic hardship in areas of the state which are experiencing high unemployment and extraordinary disruptions in the forest products industry at the earliest possible time, it is necessary that this act take effect immediately.

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ALASKA
Sen. Dick Eliason
Sen. Bob Ziegler
Rep. Ben Grussendorf
Rep. Ron Wendte

CALIFORNIA
Sen. Ray Johnson
Sen. Barry Keene
Assemblyman Norm Waters

IDAHO
Sen. Kermit Kiebert
Sen. Terry Sverdsten
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Western States Legislative Forestry Task Force

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Chairman

SENATOR RICHARD ELIASON, ALASKA
Vice-Chairman

OREGON
Sen. Ruth McFarland
Sen. Cliff Trow
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Sen. Paul Boylan
Rep. Glenn Mueller
Rep. Robert Keim

WYOMING
Sen. Earl Christensen
Rep. Marlene Simons
Rep. Ron Micheli

RESOLUTION RELATIVE TO PROVIDING FLEXIBILITY TO TIMBER HARVEST CONTRACTS

WHEREAS, the Nation's economic and social well-being and the public's realization of the products of its national forests are dependent on a viable timber inudstry; and,

WHEREAS, the timber industry is faced with enormous economic adversities unprecedented since the Great Depression; and,

WHEREAS, if relief is not granted, the timber industry and thus the Nation will experience losses of unacceptable proportions; and,

WHEREAS, there is a dilemma in providing relief while protecting the integrity of national forest timber sales resulting from competitive bidding; and,

WHEREAS, certain provisions responding to severe and unpredictable changes in the market place can be included in national forest timber sale contracts; and,

WHEREAS, such provisions must be designed to avoid speculative bidding leading to an escalation of stumpage prices.

NOW, THEREFORE, BE IT RESOLVED that the U. S. Forest Service establish a policy of including provisions in future national forest timber sale contracts that will accommmodate unpredictable changes in the market place and seek legislative authority to modify existing contracts to include such provisions; and,

BE IT FURTHER RESOLVED that the operation of these provisions be limited to only those unpredictable and most severe market place changes, for example, a gross desparity between housing start projections and the actual number of housing starts or some similar set of objective economic criteria.

BE IT FURTHER RESOLVED that the Executive Director be and he is hereby authorized and directed to forward copies of this Resolution to the President of the United States, Secretary of Agriculture, Secretary of the Interior, Chief of the U. S. Forest Service, the Congressmen and Delegates of member states.

On motion by Senator Cliff Trow, seconded by Representative Bob Brogoitti, the foregoing Resolution was duly passed and adopted by the Western States Legislative Forestry Task Force the 20th day February, 1983, in Sacramento, California.

Richard A. Robyn

RICHARD A. ROBYN
Executive Director and Counsel

The **Chairman.** Thank you, Senator Keene.

Mr. Coates.

STATEMENT OF BILL COATES, MEMBER, PLUMAS COUNTY BOARD OF SUPERVISORS, QUINCY, CALIF.

Mr. **Coates.** Yes. Mr. Chairman, I am Bill Coates, a member of the Plumas County Board of Supervisors, Plumas County.

Plumas County is located about 80 miles north of Lake Tahoe, and 81 percent of our county is National Forest Service land. Plumas County normally ranks No. 3 in timber production in California.

I am going to delete portions of my testimony so I stay within the time limit and I have five verbal comments to make when I am finished.

Our county is currently staggering under the threat of bankruptcies and layoffs due to the seemingly inevitable economic collapse of the timber industry. Disruption of county funds has already begun, and the community stability of 40 to 80 towns in the Sierra Nevada mountains, in the Central Valley, along the Coastal Range, and in the Siskiyou Mountains, is in some jeopardy.

For the past 2 years many northern and central California counties have been waiting for congressional relief and leadership in revitalizing through modification or termination a bidding level which will push many timber companies into bankruptcy if it isn't changed.

In Plumas County the U.S. Forest Service has predicted our forest reserve revenue for the 1982-83 year at $1,500,000. This is a drop of almost two-thirds from what we have been averaging over the last 10 years, even before adjusting for inflation. How does this hurt? Aside from the 14- to 30-percent unemployment rate foreshadowed by this estimate and which we have been struggling with for the last 22 months, this decrease occurs in a revenue which finances about two-thirds of our road system and about one-fifth of our school system.

I might add the latest figures that I have got for our county, the unemployment rate is 29 percent, and I heard Senator Jackson mention that it is running that high in Washington. As many as 15 or 20 other California counties may have similar problems.

All of us are additionally concerned about unemployment benefits running out which will cause people sincerely interested in working to have to seek general relief money from the counties, money we don't have.

Some might ask why are the counties willing to see contracts reduced in value which they will receive 25 percent off? Aside from the fact that if the timber industry is flattened the counties and communities will be also, most of us realize that 100 percent of nothing is nothing. Most of us would rather see realistic bid prices which are a true reflection of market value so that there is an orderly flow of timber to the marketplace, stabilizing our employment and our income base.

A recent resolution of the rural counties of California revealed urgent support for the efforts of Senators Hatfield and McClure for bidding relief legislation. This group called RCRC represents 20 of the 58 California counties, most all of them rural.

Some might ask why not let the weaker mills and much of the timber industry collapse so that after resurrection and reconstruction we have a stronger and wiser industry? I believe that this reconstruction in the industry would tend to concentrate power of the timber industry in only the largest of corporations, perhaps weakening what is now a very competitive and comparatively nonconsolidated industry. The counties and communities affected by this chaotic transition would have a tough time maintaining their road and school systems which complement the national forests. The overall road network is a key to public use, the harvesting of timber, and the overall management of other resources of the forests.

The school system supplies a vital system to those who work in and manage the national forest lands and rural education is more expensive due to distances and climates.

I tried to put myself in the place of an average citizen anywhere in the United States looking at this question. I came up with five reasons why this proposal makes some sense.

First of all, it would help stem the flow of Canadian timber into the United States by making us more competitive in our own marketplace. Most of you here in this room know that the Canadians have gone from 16, 18 percent to something like 30 percent or 32 percent of our market in the last 10 years. Currently we are staying out of our own marketplace because we can't afford to do high-price contracts. This very well could drive the Canadians further deeply into our United States market.

Second, it helps to preserve communities, school districts, and local governments.

Third, this proposal helps to prevent further consolidation in an industry which is currently fiercely competitive, as you can see, helping to guarantee in the long term, in the next 20 years, competitive bidding which brings more money to our Treasury.

Fourth, it is better yield for the taxpayers. The taxpayers do not gain from bankruptcies, and all of us know that it costs money to put people on Federal aid, food stamps, unemployment, et cetera.

And finally, this proposal does not call for Government spending, so for those five reasons I submit that it makes some sense no matter where you live in the United States.

[The prepared statement of Mr. Coates follows:]

Statement to the Subcommittee on Public Lands and Reserved Water of the Senate Committee on Energy and Natural Resources on S.916, Washington, D. C. April 22, 1983

Mr. Chairman and Members of the Committee:

I am Bill Coates, member Plumas County Board of Supervisors, Plumas County. Plumas County is located about 80 miles north of Lake Tahoe and 81% of our county is National Forest Service land. Plumas County normally ranks #3 in timber production in California.

Our county is currently staggering under the threat of bankruptcies and layoffs due to the seemingly inevitable economic collapse of the timber industry. Disruption of county funds has already begun, and the community stability of 40 to 80 towns in the Sierra Nevada mountains, in the Central Valley, along the California Coastal Range, and in the Siskiyou Mountains is in some jeopardy.

For the past two years, many northern and central California counties have been waiting for Congressional relief and leadership in revitalizing (thru modification or termination) a bidding level which will push many timber companies into bankruptcy if it isn't changed.

We haven't felt that it is in the best national interest to flatten the vital timber industry, which is necessary in helping to sustain needed flow of income to the Federal Treasury and to units of local government. It also provides the main source of employment to many rural areas, and it's health will be critical in the future as we struggle to rebuild the nation's depleted housing supply.

In Plumas County, the U.S. Forest Service has predicted our Forest Reserve Revenue for the 1982-83 year at $1,500,000. This is a drop of almost two thirds from what we have been averaging over the last ten years, even before adjusting for inflation. How does this hurt? Aside from the 14 to 30% unemployment rate forshadowed by USFS estimate, and which we have been struggling with for the last 22 months, this decrease occurs in a revenue which finances about two thirds of our road system and about one fifth of our school system. Our situation is not unique. As many as 15 or 20 other California counties may have similar problems. All of us are additionally concerned about unemployment benefits running out which will cause people, sincerely interested in working, to have to seek general relief money from the counties, money which we don't have!

Some might ask, "Why are the counties willing to see contracts reduced in value which they will receive 25% of?" Aside from the fact that if the timber industry is flattened, the counties and communities will be also, most of us realize that 100% of nothing is nothing. Most of us would rather see realistic bid prices which are a true reflection of market value so that there is an orderly flow of timber to the market place, stabilizing our employment and our income base. A recent resolution of the Rural Counties of California revealed urgent support for the effort of Senator Hatfield for bidding relief legislation. RCRC represents 20 of the 58 counties in California.

Some might ask, "Why are the Counties so pessimistic about the current future of the timber industry?" All of us in the timber producing counties of California have examples of mills closed down and men out of work, of schools in trouble and of families on welfare that want to be working. The study by George Craig, a Registered Professional Forester, discovered that recovery is not just around the corner. According to his study, return in the market place to the most optimistic market prices will still not allow the average efficiency operator to operate in the black. With average operating costs of $295 per thousand board feet and average stumpage charges of $222 per thousand board feet, many of us feel that even a substantial drop in interest rates will not make it possible to harvest sales bid previous to 1982.

Some might ask, "Why not let the weaker mills and much of the industry collapse so that after resurrection and reconstruction we have a stronger and wiser industry?" I believe that this reconstruction in the industry would tend to concentrate power in only the largest of corporations, perhaps weakening what is now a very competitive and comparatively non-consolidated industry. The counties and communities affected by this chaotic transition would have a tough time maintaining their road and school systems, which compliment the National Forests. The overall road network is a key to public use, the harvesting of timber, and the overall management of the other resources of the forests. The school system supplies a vital system to those who work in and manage the National Forest Lands and rural education is more expensive due to distances and climates.

Pertaining to current proposals, I believe that Contract Term Extensions and Contract Term Adjustments, without additional provisions, will only add to the uncertainties, and delays the resolution of what to do with the many federal timber sales that are now under contract, but are inoperable currently and will remain so in the future.

The best suggestion for survival until the market rebounds is for the allowance of contract termination, and if this occurs for only some contracts, then the remaining contract dates would need to be adjusted so that their negative profit impact could be mixed with new contracts.

In conclusion, I would like to ask for leadership in this critical area from Congress. Help us to keep our counties and our communities functioning and our people working.

I would enjoy answering any questions you may wish to ask.

The Chairman. Thank you very much.

Mr. Cooper.

STATEMENT OF DAVE COOPER, COUNTY COMMISSIONER, LINN COUNTY, OREG.

Mr. Cooper. Thank you, Mr. Chairman. Members of the committee, my name is Dave Cooper, and I am wearing two hats here today. I am a publisher of a weekly newspaper in Oregon and I am in my first term as Linn County Commissioner.

As a small businessman and a commissioner dealing with the problems of the current timber industry recession, I can attest to the impact that it has had on all elements of our community and county. I will speak in favor of S. 916.

Linn County is now experiencing a 17½-percent unemployment, and that is certainly not uncommon in Oregon right now. In fact, the eastern part of the county where I live, the employment rate could be measured as well over 20 percent, and the county rate could increase a point because of recent closure of one of our larger mills. Hopefully it will reopen, but in the meantime it has put another 560 people out of work.

Empty store buildings are popping up all over the county, and I personally know a number of small business people who have dipped very deeply into their savings, in fact, some of them well past the bottom of their savings just to keep their door open in the hope that better times are coming.

Many people who have lived in our community for all their lives and love it there are moving to other places looking for other employment, and some of that to no avail. Linn County government itself relies very heavily upon timber revenues. We receive over 20 percent of our general fund budget and over 70 percent of our road fund budget from forest revenues, and the O&C fund from the Bureau of Land Management and Forest Service fund which primarily goes into our roads and our schools far exceeds any other revenue sources, including property taxes.

This past year we have decreased our budget, county budget, by more than 20 percent, and it would be far deeper than that if we had not been able to get special levies after trying several times for law enforcement help, but we have no assurance that that revenue source will be open to the future.

I believe that it has been a combination of policies that at least are partially the responsibility of the Federal Government that has led to a lot of overbidding that has created the problem in western Oregon. One of those policies has been a constant threat. We seem to see a kind of threat of diminishing timber supply from the Forest Service through locked-in wilderness set-asides and what I consider unreasonable land use planning processes, and I think maybe that is one of the causes for you seeing a new surge of this type of bidding at this time, and the other policy that the Federal Government has had, a factor that has been alluded to by some of the speakers, is the high interest rates that actually froze the building industry and as a consequence, the timber industry and the small communities which I feel I represent were the victims down the line.

We are now experiencing a recovery, and those of us who live in small communities have been more optimistic, but we see that optimism dimmed by the possibility of a door being slammed in our face again through massive defaults and through bankruptcy of the timber companies, primarily the smaller timber companies.

Some say that if the companies are shaken out in this type of a process, then there will be somebody there to pick up the pieces, and that has been alluded to. This will be the giants in the timber industry, and that is not much of an assurance for those of us in small communities because there is no assurance that the logs that are logged there will be milled there, and we have an example in Eastland County where one of the larger timber holders hauls its logs to the urban area to be milled, and we fear, those of us in the small communities fear that we will be left out if not to die, certainly to suffer the consequences, and look at the base of our survival which is the timber industry drying up on us in our community.

As a county commissioner, I would hope that any type of timber relief legislation would create some sense of stability so that the employment of our workers, future small business and income received by our counties could get off the roller coaster we have been on.

Any programs of extensions I hope will contain some provisions for annual harvest or at least annual percentage payments to provide some of that stability. Annual harvest would provide community and county stability. The payment schedule would certainly provide the county stability as far as our revenue is concerned. You will hear more about one of those proposals on BLM land when Ray Doerner testifies with the Association of O&C Counties up next.

Although the provisions of S. 916 certainly do not meet the needs and desires of all counties of Oregon, I assure you that every county commissioner that I have discussed this problem with is convinced that some relief is necessary for all of us who are interested, who are intertwined with this problem. The timber industry, the workers, the community, the counties—and none of us will benefit from massive defaults and bankruptcies of the smaller companies or the centralized division of manufacturing capacity in the few remaining larger companies, and that is why I speak in favor of S. 916.

Thank you very much.

[The prepared statement of Mr. Cooper follows:]

Statement of
Dave Cooper
Commissioner
Linn County, Oregon

Before the
Senate Committee on Energy and Natural Resources
Subcommittee on Public Lands
on S. 916
April 22, 1983

Mr. Chairman and Members of the Committee:

My name is Dave Cooper. I am the Publisher of the New Era, a weekly newspaper in Sweet Home, Oregon, and I am currently serving my first term as a Commissioner in Linn County. As a small businessman and a Commissioner dealing with the problems of the current timber industry recession, I can attest to the impact that it has had on all elements of our community and our county.

Linn County is now experiencing a 17½ percent unemployment rate and it will probably soon be at least a point higher than that with the recent closure of Champion International's mill in Lebanon.

In East Linn County, where I live, the unemployment rate is even higher because it is even more dependent upon the timber industry for its survival. Empty store buildings are popping up all over and I personally know a number of business people who have dipped deeply into their savings -- some well past the bottom -- in order to keep the door open.

Many people who have lived all their lives in our communities, and really love it there, are moving elsewhere because there is no work available.

Linn County government -- and our schools -- have also been very reliant upon harvesting of timber, and because well over half of the county is owned by the federal government, that means we are reliant upon the harvesting of federal timber. Linn County's dependance on federal timber revenue is dramatic, providing, in normal years, about 50 percent of our total operating revenue for the combination of our road fund and general fund. This far exceeds any other revenue source, including local property taxes. Linn County has always been conservative in its spending and is operating this year on more than 20 percent less than last year. We would have experienced an even more damaging decrease if the voters had not approved special law enforcement and health levies, after several tries at the polls. We are faced with a reduction of another million dollars in revenue this year because of the loss of several revenue sources, including forest revenue.

Linn County is presently buffeted by the whims of federal policy -- Wilderness proposals, lock-ups through federal forest planning, high interest rates and others -- until we frankly suffer from the anxiety brought on by a severe lack of community stability.

As a small businessman, I have seen the staff of my newspaper cut in half through this timber depression. And my business represents the community, because we count on the other businesses in the community for our survival.

The counties of Oregon aren't consistent in what we feel needs to be done to correct this instability, but we do know that massive timber defaults and bankruptcies, particularly among the smaller industries, are not the answer. We do know that the timber companies need some kind of reasonable relief.

I believe that it has been a combination of policies, where the federal government exercises a lot of control, that has created much of the problem in western Oregon. The constant threat of diminishing timber supply, both through wilderness set-asides and unreasonable land use planning policies, has created a feeling of need for panic buying by companies that need the supply to survive. Unreasonable inflationary bidding has been a factor, of course, but I think the lack of supply has been a bigger factor. The high interest rates which changed the definition of usury caused a collapse in the housing industry. The timber industry, and the many small communities that they support, were next in line on the list.

We are now experiencing a recovery and those of us who live in small timber communities have been more optimistic, but that optimism is dimmed by the continued threat of massive defaults and potential collapse of the companies that for years have provided employment for our people and kept the doors open on our small businesses.

Some say that even if some companies are shaken out in the system some other company will come along, pick up the pieces, and continue to provide employment.

This is not very reassuring in small timber-dependent communities and counties. Logging our timber does not assure that the timber will be milled there, providing local jobs. For instance, Weyerhaeuser Company is one of the biggest landowners in Eastern Linn County, but once their logs hit the back of a logging truck, they quit providing jobs in Linn County. They are hauled to the Eugene-

Springfield metropolitan area and the bulk of the payroll dollars go into the urban system.

I am aware that some urban elitists have now adopted the philosophy that "some communities deserve to die," but I am convinced that small town living in Oregon is a way of life that is worth preserving -- and, as an aside, I believe that it is worth preserving more than the timber in some Wilderness areas.

The only sense of security we will have in small town Oregon, however, is tied to the security of our major industry. In Linn County, as in much of Oregon, that is the timber industry.

I would hope that any type of timber relief legislation would create some sense of stability, so that the employment of our workers, the future of small business and the income received by our counties could get off the roller coaster we've been on. Any program of extensions, I hope, would contain some provisions for annual harvest or, at the least, annual percentage payments, to provide some of that stability. You will hear more about one of the proposals on BLM land when Ray Doerner testifies for the Association of O&C Counties later today.

Although the provisions of S. 916 certainly do not meet the needs and desires of all counties in Oregon, I can assure you that every county commissioner I have discussed this problem with is convinced that some relief is necessary for all of us who are interested with this problem -- the timber industry, the workers, the communities, and the counties. None of us will benefit from massive defaults, the bankruptcies of the smaller companies or the centralization of manufacturing capacity in the few remaining large companies.

This is why I support the passage of S. 916 and urge its passage by the U.S. Senate.

Senator **Hatfield** [presiding]. Thank you.

Mr. Doerner.

STATEMENT OF RAY DOERNER, EXECUTIVE DIRECTOR, ASSOCIATION OF O&C COUNTIES, ROSEBURG, OREG.

Mr. **Doerner**. Mr. Chairman and members of the committee, my name is Ray Doerner. I am executive director of the Association of O&C Counties, a group of western Oregon counties in which 2½ million acres of revested Oregon and California grant lands lie.

Before I get into the text of what I have to say, I would like, Mr. Chairman, to just briefly respond to your comments regarding the recent high bidding.

It is my impression that a few individual sales may have given the image that there is a run-away bidding process going on again. I would like to read the average sale of BLM timber in western Oregon for the last 6 months.

In October, the average sale was $118. In November, it was $99; $100 in January, 138 in—$138 in January, February $139; and in March, $120, so I think that even that is perhaps more than should be bid on today's market, but it appears to me that a few individual sales are getting the attention.

To go on with my testimony, I will just highlight and skip some of the portions, but I want to say that in western Oregon, as you know, the private timber supply is now in a trough because it has been pretty well harvested, the first crop, and we are awaiting the ripening of the section 1 some 20 to 40 years hence. Our mills are heavily dependent upon timber inventories of Federal land to maintain the flow of needed supply, and meanwhile as we have been frustrated over this, operators have sweat blood, you folks have agonized, and the Federal agencies granted temporary reprieves. Counties have waited quietly for some resolution or dissipation of the problem.

This is not to say that the counties have been unattentive or unconcerned. Over a year and a half ago we urged the Secretary of the Interior to administratively adjust contract prices of certain timber sales to a break-even level. We were desperately trying to get some relief, some activity going, some money for the counties. In 1982 we did not succeed. County receipts fell by 60 percent last year in 1982 which had a devastating effect. In western Oregon the average county has reduced their work force by 40 percent. That might be equivalent to 4 million Federal employees.

This is a tremendous shock to the delivery system of local services, and we are beginning to feel the effects of that. Many courthouse offices are open on a 4-day week at this time, and 1983 appears to be a repeat of 1982 insofar as income is concerned except that counties have depleted cash carryovers, reserves, and other loose change that they might have, but 1983 is not over and we believe that if prompt action is taken by the administration or the Congress this bleak financial picture could be somewhat improved for the ensuing year.

We commend and support the sponsors of, cosponsors of S. 916 for their tenacious and sincere efforts to support a resolution to the timber problem. Many of our needed mill operators will be spared financial disaster and the stability of our communities will be much more certain in the future, but passage of S. 916 does little to relieve the plight of the counties at least in the near future. Perhaps this is an unavoidable circumstance, but we have some suggestions. The following comments are not to be considered as critical. Rather they are intended to be explanatory, suggestive, and are directed toward BLM timber sales contracts that were in effect prior to October 1, 1981.

The Association of O&C Counties has not supported outright termination of high-priced BLM timber contracts. We believe that the contract holder should be encouraged to honor the contract to fruition even if modification for time and/or price are the necessary incentives.

Contract modification as opposed to termination will preserve the integrity of the contract at minimum expense, and the ongoing forest management program will be less adversely affected.

We view termination of BLM contracts as expensive, cumbersome, and an invitation to conflict over the adjudication of the remaining values on partially harvested sales.

Over 70 percent of the 366 western Oregon BLM contracts that are subject to the Secretary's grace period have been touched. This means that some timber has been removed or road construction taken place. Unlike the Forest Service, the BLM sells on a lump sum basis. The buyer bids and pays a net lump sum amount for the estimated volume of timber on the sale, and that figure is final. The Forest Service sells similarly except the dollar allowance for road construction is specified in the contract and the buyer pays the unit price for the amount of timber actually removed.

Some purchasers state that the termination of such sales by BLM would be no big problem. It is just a matter of negotiation. Well, as partners in this arrangement with you folks, the counties do not agree. There will be ample opportunity for disagreement. How much timber was removed? What quality? How much did the road cost? Is the Federal Government going to pay the cost of the road if no timber has been removed. There are many more problems. We submit this in itself is sufficient reason for consideration of some different method of remedy for reaching of the same objective.

Recent improvements in the market for wood products and the industry's accumulation of a minimal new supply of low-cost stumpage purchased during 1982, 1983, has caused our association to move from a position of price rollback to one of long-term extension of commitments. Among the various commitments would be an agreement by the contract holder that a given percentage of the extended volume to be harvested would be harvested or paid for each year until the extended volume is harvested. We believe that a plan of this type is achievable at this time. If implemented, it would provide sufficient absorbtion time for the contract holder to recover and would produce some income for the county and Federal treasury.

In conclusion, we suggest that S. 916 be amended to include long-term extension with commitment concept as an option for use on BLM contracts. We believe that a large portion of the western

Oregon contract holders will take advantage of this opportunity if it were available.

Thank you very much.

[The prepared statement of Mr. Doerner follows:]

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Testimony of Ray E. Doerner
before
The Senate Energy and Natural Resources Committee
S-916 May 22, 1983

Mr. Chairman and Members of the Committee:

My name is Ray E. Doerner. I am the Executive Director of the Association of O & C Counties - a group of Western Oregon Counties in which the two and one-half million acres of Revested Oregon and California Railroad Grant Lands lie. The dependence of these county communities upon the forest resource as an economic base ranges from 5% to 90% with the O & C lands supplying about one fifth of the annual timber supply.

In addition, shared receipts from the sale of federal timber - BLM and Forest Service - are the mainstay for the several Western Oregon county budgets providing vital services and facilities necessary to the well-being of a healthy forest community. In some of the Western Oregon Counties the actual value of the Federal timber and timberlands actually exceeds the value of all private property including homes, ranches, industrial facilities, non-public timber and other privately owned assets.

We view the Federal Government, through its Agriculture and Interior Departments, as that of a responsible custodian and partner in Western Oregon timber matters. In earlier years of forest development it recognized its commitment to community stability by restraining the Federal timber marketing program in such a way as to not conflict with the harvest schedule of the private sector - the bulk of that native stand has now been harvested and we are awaiting the next timber crop. It was not until the last couple of decades that the National Forest and the BLM put forth their full sales program under the principles of sustained yield. Even in 1937, the O & C Act carefully stated that only so much of the annual allowable cut would be offered as could be sold on a "normal market".

The Western Oregon private timber supply is now in a trough while we await the ripening of the new crop some 20 to 40 years hence. Our mills are heavily dependent upon the Federal timber inventories to maintain the flow of raw material needed to sustain the existing labor force and local economies. The uncertainty of this supply has undoubtedly made its contribution to the over-bidding problem that we are discussing here today - thus far, a problem for which a solution has been elusively frustrating for all concerned.

Meanwhile, as contract holders have sweat blood, legislators agonized, and federal agencies have granted temporary reprieves, the Counties have patiently and quietly awaited some resolution or dissipation of the problem. This is not to say that the counties have not been unattentive or unconcerned. A year and a half ago, we urged the Secretary of Interior to administratively adjust the contract prices of certain sales to a break-even level. We were desperately trying to help get our industries in a more competitive position and to get some revenue for the counties. We did not succeed and 1982 was a devasting year for the counties. Shared receipts fell 60% from the previous year causing counties to terminate approximately 40% of their standard work force. This is a tremendous shock to the delivery of local services - the effects of which are only beginning to bite. Many courthouse offices are closed one day per week and the voters are reluctant to approve additional property tax levies in these hard times. 1983 appears to be a repeat of the past year except that all reserve funds, cash carry-overs, and other loose change has been depleted causing a still further reduction in services.

But 1983 is not over and we believe that with prompt action of the Administration and/or the Congress, the bleak county financial picture could still be improved for the ensuing fiscal year. We commend the sponsors and co-sponsors of S-916 for their tenacious and sincere efforts toward a resolution of the over-priced timber issue. As proposed, we believe that at least part of the problem will be resolved. Many of our needed mill operators will be spared from financial disaster and the stability of the local communities will be much more certain. But the passage of S-916 does littleto relieve the plight of the counties, at least in the near future. Perhaps this is an unavoidable circumstance, but we have some suggestions.

The following comments are not to be considered as being critical - rather they are intended to be explanative and suggestive and are directed toward BLM-O&C timber sales contracts approved prior to October 1, 1981.

The Association of O & C Counties has not supported outright termination of high priced BLM timber contracts. We believe that the contract holder should be encouraged to honor the contract to fruition even if contract modification for time and/or price are the necessary incentives.

Contract modification, as opposed to termination, will preserve the integrity of the contract at a minimum of expense and the on-going forest management programs of the Bureau will be less affected. We view termination of BLM contracts as expensive, cumbersome, and an invitation for conflict over the adjudication of the remaining values on a partially harvested tract.

Over 70% of the 366 Western Oregon BLM contracts subject to the Secretary's grace period extension have been "touched". This means that some timber has been removed or road construction has taken place. Unlike the Forest Service, the BLM sells and receives payment on a "lump sum" basis. In other words, the buyer bids and pays a net lump sum amount for the estimated volume of timber on the sale and that figure is final. The Forest Service sells similarly except that the dollar allowance for road construction is specified in the contract and the buyer pays the unit bid price for only the actual measured volume that is removed.

Some purchasers state that termination of touched sales would be no big problem - rather it would simply be a matter of negotiation, they say. As your partner in this venture, we the counties do not agree. There will be more than ample opportunity for disagreement. How much of the timber was removed? What quality? How much did the road cost? Will the BLM pay for the road if no timber has been removed, and if so, at what price? These and many other items of potential conflict will surely arise - many of which would finally be resolved in the courts, we believe.

We submit that the "touched sale" problem is sufficient cause, alone, for consideration of a different method of remedy for the problem on BLM, contracts than proposed in S-916. Other reasons include the fact that it has long been recognized that the rules and resultant provisions embodied in BLM contracts are more strict, in so far as extensions are concerned, than those of the Forest Service. Further, the O & C Act places different emphasis upon the various objectives for which the lands are to be managed. Community stability, including payments to county governments ranks extremely high in the O & C Act.

Recent improvements in the market for wood products and the industry's accumulation of a minimal new supply of lower cost stumpage purchased during 1982 and 1983 has caused our Association to move from a position favoring "price roll-back" to one of "long term extension with commitments". Among various commitments would be an agreement by the contract holder that a given percentage of the extended volume would be harvested or paid for each year until all extended volume is harvested.

We believe that a plan of this type is achievable at this time. If implemented, it would provide sufficient absorbtion time for the contract holder to recover and it will produce some income for the county and federal treasuries. Our legal advisor confirms that such modification of the contracts is administratively permissible under terms of the O & C Act, perhaps, however, the Secretary would feel more secure if he had the blessing of the Congress in this matter.

In conclusion, we suggest that S-916 be amended to include the "long term extension with commitment" concept as an option for use on BLM contracts. We believe that a large portion of the Western Oregon contract holders would take advantage of such an opportunity if it were available.

We further recommend that whatever course of action the Committee chooses, continued haste is vital. The 1983 logging season is upon us and we do not need another year of uncertainty, if it can be avoided.

Respectfully submitted,

Ray E. Doerner, Exec. Dir.

Senator HATFIELD. Thank you very much, Mr. Doerner. Thank you very much, gentlemen, for your testimony.

I would like to call panel No. 2—Frank Servoss, Barbara Webb, Dean Beck, Harry Pryde.

While the panel is assembling, I would like to read into the record at this time the latest information from the National Forest Service on the bids in comparison to last year.

The bids of the first quarter of this year for all species, all of 1982, the average bid was 86,000 board feet. For the first quarter of 1983, that jumped to 128,000 board feet. For Douglas-fir only—these are for Oregon and Washington, for Washington and Oregon—the west side of Oregon and Washington figures, for Douglas-fir only, for all of 1982, the average bid was $120 per thousand board feet, and for the first quarter of 1983, the average was $182 per thousand board feet.

Mr. Servoss, I guess you lead off on your statement this morning. He is not here.

Mr. Beck.

STATEMENT OF DEAN L. BECK, BOND MANAGER OF ROLLINS, BURDICK & HUNTER, PORTLAND, OREG.

Mr. BECK. Thank you, Mr. CHAIRMAN. Members of the committee, my name is Dean Beck, and I work with an insurance agency in the beautiful city of Portland, Oreg., and we have been involved in the timber industry for the past 40 years plus.

Our company was founded based on that premise, that we would handle the timber industry. We probably handle the largest share of timber accounts in the State of Oregon, ranging from people with five employees to those with revenues in excess of $1 billion.

My responsibility in the organization is the bond manager and hopefully I provide timber cutting bonds and payment bonds for those companies who qualify. Lately it has not been an easy task.

We have heard a lot about today, and you will also hear more about the purchasers and their plight. I think we also ought to go beyond that and talk about the problems that go beyond the purchasers and those of the business community and the cities themselves. The domino effects in Oregon and I am sure parts of Washington and Idaho are devastating because when there is a lack of productivity in our field, everybody suffers—the Federal Government, State, county, local—and that would be in tax dollars that could be well spent that are not being funneled into the program.

Also when a mill is not operating from a business standpoint, the insurance industry then loses. Insurance premiums from the Worker's Comp., insurance premiums, employee benefits, liability insurance, property insurance, life insurance, all those are based primarily outside of the property on employees working, on the manhours, but if the company pays $500,000 for their liability policy based on so many manhours, at the end of that year it is audited, the insurance companies may have to give back most of it because there is nobody working, and this is a tremendous drain on the economy.

Also in speaking about what I do, one of the questions is has net worth dropped on these timber industry related companies? Does that present a problem with the bonding companies? Yes, definitely. Bonding companies basically underwrite on experience, banking relationships, good accounting practices, and timber, whether it be fee or Government contract, and also a great deal on the net worth of a company. As the net worth diminishes, the bonding company is still hanging out there with a tremendous amount of liability, but the ratio is now not one to one. It could be a one to four ratio, and debt to worth becomes critical and surety companies become more restricted. By becoming more restrictive, they are less enthused about writing bonds. If a mill goes into a chapter 11 or some other form of reorganization, the surety company has the opportunity of supporting that company on a limited basis or they can just say we will pay the bond penalty and walk away and leave the company in an even worse shape along with the bank.

If a small mill survives in this rocky period which some of them are, and it was alluded to that they are digging into their pockets, they are going into personal assets, even if relief is granted, because of the tremendous drain on capital, some of the small mills may not survive after all.

A little information about the surety industry—to date they have paid out on payment bonds and also in the State of Washington what we call the deferred payment bonds, in excess of $10 million, and they have recovered none of it so far.

Payment bonds for you who are not aware is a financial guarantee which allows the purchaser to remove timber before paying it to the Federal Government or the Forest Service. If the sureties have to pay this and they try to object, it is a financial guarantee and the U.S. Forest Service or the BLM can take them off the Treasury list until such funds are paid back to the Forest Service. No surety company has been taken off the Treasury list since 1967, so that would be devastating, too.

Well, briefly, one surety market that we deal with has over 180 million dollar's worth of liability outstanding in both performance and payment bonds, with very little reinsurance. If in dire circumstances all these were defaulted and the payment bond penalties were demanded by the Forest Service and BLM, this could not only seriously affect the surety portion of that company, but it could also affect the stability of the insurance company as a whole.

[The prepared statement of Mr. Beck follows:]

STATEMENT OF
DEAN L. BECK
ROLLINS, BURDICK, HUNTER OF OREGON, INC.
BEFORE THE
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
ON
S. 916 AND S. 848

APRIL 22, 1983

Mr. Chairman, Members of the Committee, my name is Dean L. Beck, Bond Manager of Rollins, Burdick, Hunter of Oregon, Inc., an insurance agency (formerly Cole, Clark, & Cunningham) of Portland, Oregon.

Our firm has, for over 40 years, handled the majority of timber accounts in the state of Oregon. We pride ourselves in our expertise in timber and timber-related industries. Our clients range from small timber purchasers with as few as five employees to those known to have net worth in excess of a billion dollars. All contributing to the overall economy of the state of Oregon and the Northwest.

My responsibility, as bond manager, is to provide timber accounts with timber cutting bonds on sales purchased. Also, for those who qualify, payment bonds. Over the past sixteen months, obtaining timber cutting bonds through normal surety channels has become increasingly difficult.

While the lack of relief to the timber industry in the Northwest is becoming critical, I believe the Committee should also look beyond the timber purchasers and look at the effect the lack of productivity is having in the Northwest.

When a mill shuts down the domino effect is devastating to the community, county, and state. In fact, to the Federal Government. Gentlemen, I am referring to taxes lost to the Government.

Also, when a mill is not operating, there are no worker compensation premiums, no medical benefits, liability insurance is greatly reduced, and surety revenue is reduced due to fewer sales purchased. This leads large and small insurance agents to reduce staff, merge, or go out of business, not to mention the mills. Again, the Federal Government, state, county, and local government loses the tax dollar that is critical in running an effective government.

Do the losses in net worth to the timber purchasers affect their ability in obtaining adequate timber cutting bond capacity to continue operating? The answer is a definite yes. The surety industry has also suffered serious losses and their underwriting standards have become increasingly tighter and in some cases a helter skelter attitude of indecisions toward the timber industry.

If a mill goes into a Chapter 11 or some form of reorganization, the surety company then has a difficult decision as to whether to support the company with limited bonding or retire from that account, pay their losses, and gracefully retire from the timber cutting bond market altogether.

Also, if a mill survives this rocky period but is unable to increase its capital and continues to lean on the bank for working capital, there is no guarantee that the surety company will continue to support their bonding needs. Without relief, the small mill, after struggling, still has the prospect of not surviving.

To date, the surety industry has paid out on payment bonds/deferred payments bonds (state of Washington) in excess of $10 million. It should be noted, that a payment bond is a pure financial guarantee bond. Once demand has been made by the Forest Service or BLM, sureties pay. If any delays are tried, the Government can take the insurance carrier off the treasury list. Since this would be devastating, no sureties (since 1967) have been taken off.

To date, no surety has paid out on a default of a timber contract. However, should no relief come to the timber industry, it is apparent that this could cause some surety markets to retire from the market place, making it even tougher to obtain adequate bonding.

A frightening example can be told of only one surety market. This market has over $180 million in liability outstanding. Most of it is not re-insured. If, under the most dire circumstances, all of the sales were defaulted at the same time, it would be a critical time for the surety as well as the insurance company.

With these figures of liability, sureties are not as responsive and are requiring more information, additional collateral, less exposure and rate increases. All of these are having an adverse effect on timber purchasers and future bidding in their areas.

The insurance industry in the Northwest is seeing local offices close, branches reduced in staff, and an overall uneasiness as to their future, in large part due to the depressed timber economy.

We in the insurance industry have shown great pride in our Region and the timber industry which has supplied the state of Oregon and the Northwest with jobs and hundreds of millions of dollars to make the economy move. It would be disastrous not to allow the industry to continue in that capacity.

Senator **Hatfield**. Thank you, Mr. Beck. Now I have read your testimony. What is your position on these two bills?

Mr. **Beck**. I am in favor of the relief program for the purchaser.

Senator **Hatfield**. I see. Thank you very much.

Ms. Webb.

STATEMENT OF BARBARA A. WEBB, PRESIDENT, WEBCO LUMBER, INC., GRANTS PASS, OREG.

Ms. **Webb**. Mr. Chairman, my name is Barbara Webb, president of Webco Lumber, Inc., a small family-owned business in southern Oregon.

My father has been in this industry for 30 years. Our company produces specialty lumber for the construction market in the United States, over twelve countries overseas, and more recently, Japan. Due to high interest rates, the destruction of the housing market, and the severity of this recession, our business has been devastated. I would like to present some of the problems we and other small companies have faced.

During 2 of the last 3 years, we have been operating on a curtailed basis, severely crippled by this recession. Our facility has now been closed for 4 months with uncertainty of when we will start up again, if ever. We are totally dependent upon Federal timber.

Two years ago we were against contract relief. We considered ourselves conservative both in number of sales acquired and the price paid. By late 1981, we had lost money for over a year but we didn't complain. We had little or no markets either here or in Europe, so we made a determined effort to survive and began manufacturing metric products for Japan. Our determination to survive and the innovative changes we made are outlined in a Wall Street Journal article which I will submit.

We shipped most of our product to Japan for over a year. We had a No. 1 reputation in Japan. In September 1982, when we had demand for approximately four times the orders that we could produce, our financial institution canceled our operating line of credit without any notification. We lost too much money due to the high cost of our materials and also interest rates. While larger companies with plenty of assets paid 14, 15 percent interest, on our borrowed money we were charged more than 19 percent for an operating line. The only term money we could find was at a rate over 20 percent. Not only were financial institutions reluctant to loan on personal property, many wouldn't even consider a 90-percent guaranteed SBA loan program which had been approved for our company for several months.

It is my understanding that some major banks have specifically instructed their personnel to move away from wood products business. The point is if there is no contract relief, then a company goes through the default process, and if the Government sends them a bill for the difference, it is totally impossible for many companies to pay that difference, let alone go out and find financial resources to do so.

Most of the small closely held companies have to personally guarantee everything they do to stay in business from banks to bonding companies. They won't lose just a corporation but absolutely everything they have ever worked for. If the Government sends them a bill, there won't be anything to collect from.

We were against contract relief when we believed the recession would be of short duration, as they had been in the past. However, it was not. Federal Reserve policies and high interest rates changed the rules of the game. It is no longer a fair game, and therefore some form of relief is urgently needed, not a year from now, but today. Many established companies and families have contributed jobs, taxes, community stability for thirty years or more into a system they believed to be fair. Many of these people have everything they worked for on the line. I believe that they deserve fairness in return for their efforts not to be put out of business.

The Japanese have the saying, "Let's work together. Let's survive together." We're all so busy fighting each other, large versus small, north versus south, business versus Government, that we only stand still or go backwards. I believe it's time we worked together to find suitable solutions so we can survive together and move forward.

Thank you.

[The prepared statement of Ms. Webb follows:]

STATEMENT OF BARBARA A. WEBB
PRESIDENT, WEBCO LUMBER INC.
GRANTS PASS, OREGON

Before the
Subcommittee on Public Lands and Reserved Water
Committee on Energy and Natural Resources
United States Senate
on
S.916 and S.848

April 22, 1983

Mr. Chairman, Committee members, my name is Barbara Webb, President of the Webco Lumber Inc., a small family owned business in Southern Oregon. My father, mother, and two brothers are involved in operating this business. My father has been in this industry for 30 years. We employ approximately 70 people directly and support another 150 jobs in our local area. Our company produces specialty lumber for the construction market in the United States, over 12 countries overseas and, more recently, Japan. Due to high interest rates, the destruction of the housing market, and the severity of this recession, our business has been devastated, and so has my family.

I'd like to present some of the problems we and other small companies have faced. During 2 of the last 3 years, we have been operating on a curtailed basis, severely crippled by this recession. Our facility has now been closed for 4 months, with uncertainty of when we will start up again, if ever.

We are totally dependent on Federal timber. Two years ago, we were against contract relief. We considered ourselves conservative, both in number of sales acquired and the price paid. By late 1981, we had lost money for over a year, but we didn't complain. We had little or no markets either here or in Europe, so we made a determined effort to survive and began to manufacture metric products for Japan. Our determination to survive and the innovative changes we made are outlined in a May 1982 Wall Street Journal article which I will submit today.

We shipped most of our product to Japan for over one year. We have a number one reputation in Japan. The brand "Webco" is actually famous in their industry. In September 1982, when we had demand for approximately 4 times the orders that we could produce, our financial institution cancelled our operating line of credit without any notification. We had lost too much money, due to the high cost of raw materials.

While larger companies with plenty of assets paid 14-15% interest on borrowed money, we were charged more than 19% for an operating line. The only term money we could find was at a rate over 20%. Not only were financial institutions reluctant to loan on personal properties, many wouldn't even consider a 90% guaranteed SBA loan program, which had been approved for our company for several months. It is my understanding that some major banks have specifically instructed their personnel to move away from wood products business.

The point is that if there is no contract relief, and a company goes through the default process, and if the government sends them a bill for the difference, it is totally impossible for many companies to pay that difference, let alone go out and try to find the financial resources to do so.

Most small closely held companies have to personally guarantee everything they do to stay in business, from banks to bonding companies. They won't lose just a corporation, but absolutely everything they've ever worked for. If the government sends them a bill, there won't be anything to collect from.

We were against contract relief when we believed the recession would be of short duration, as they had been in the past. However, it was not. Federal Reserve policies and devastatingly high interest rates changed the rules of the game. It is no longer a fair game, and, therefore, some form of contract relief is urgently needed, not a year from now but today.

Many established companies and families have contributed jobs, taxes, and community stability for 30 years or more into a system that they believed to be fair. Many of these people have everything they've worked for on the line. I believe they deserve fairness in return for their efforts, not to be put out of business.

The Japanese have a saying, "Let's work together, let's survive together." We're all so busy fighting each other, large vs. small, North vs. South, business vs. government, that we only stand still or go backwards. I believe it's time we work together to find suitable solutions so we can survive together and move forward.

Thank you for the opportunity to present our views.

STATEMENT OF HARRY PRYDE, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS, WASHINGTON, D.C.

Mr. PRYDE. Mr. Chairman, members of the committee, my name is Harry Pryde. I am a homebuilder and developer from Seattle, Wash. I am testifying on behalf of our 107,000 members of the National Association of Home Builders of which I am the president.

I am pleased to be able to present our views today on contract relief legislation. For the homebuilding industry, the bottom line is the supply of lumber, our chief building material.

The U.S. Forest Service and the timber industry estimated that several billion board feet of national forest timber under contract will default if this contract relief is not granted. We need this supply if the housing industry recovers desperately. Defaults followed by resale will be too slow and would put us into a position of scarcity this year which would drive up prices dramatically.

The annual rate for housing starts in March was 75 percent of the level 1 year ago which on a seasonally averaged basis was 1.611 million units compared to 920,000 in March 1982. This was a 9-percent decline from this February which was 1.7 million starts. The quarter as a whole, however, this year is the best that we have had since 1979. These figures, of course, are good, much better than they have been in the past, and we are cautiously optimistic, but we still have to keep in mind that we are coming off the worst two years of production we have had since World War II. Our revival is being shadowed by rapidly rising lumber prices. In the first 14 weeks of 1983, the composite price of framing lumber rose 9.6 percent, from $208 to $228 per 1,000 board feet. At that rate by the end of this year lumber prices will have inflated over 35 percent. That 35 percent will go even higher if the inoperable lumber does not come on the market to meet demand.

We are forecasting housing production this year about 1.45 million starts. Single family activity is expected to reach just a little over 1 million, and multifamily, 464,000. This modest housing recovery will cause lumber prices to rise in response to the market. However, we need to have inoperable lumber made available promptly to avoid skyrocketing lumber costs. We have to always remember that these costs end up being paid by the American home buyer in the end.

To dampen price hikes anticipated as housing production arises, it is equally important to assure that as many of the small producers as possible are operating. The production capacity is needed to meet the demand. By forcing these companies into bankruptcy we leave fewer producers with less capacity, and in response to market forces those remaining will raise prices more than if the extra production capacity is available to respond to this increased demand.

NAHB endorses the contract relief proposals contained in both Senate bill 916 and 848, and we accept the judgment of the sponsors of the bills and the timber industry that the levels of relief are necessary to alleviate the situation.

We are neutral, however, on the purchaser road credit provision in Senate bill 916. We do want to make the suggestion as regards the provision requiring the cap on fiscal year 1984 production in the Forest Service region 6, that the provision should contain a mechanism to remove the cap in case housing demand resurges more quickly than currently anticipated. The cap would prevent the flooding of the market when housing production is insufficient to absorb the extra lumber placed on the market without depressing prices. However, if production is high, then timber above the cap would be made available to meet the demand and avoid windfalls to producers ready to take advantage of the relative scarcity of lumber.

We recommend a trigger of an annual rate of about 1.7, 1.75 million starts for 3 successive months in fiscal year 1984 to cause this cap to be removed, and maybe it should be lower, but in that particular range is where we fall.

The bottom line for all combined or concerned with the housing and lumber industry should be economic recovery. The revival of the housing industry in time will fully revive the lumber industry. In the meantime, we should not pursue rigid governmental policies that force companies into bankruptcy and cause unnecessary economic hardship. Virtually everyone loses if these contracts are enforced.

Mr. Chairman, I appreciate the opportunity to present our views. If you have any questions, I will be happy to answer them.

Senator HATFIELD. Thank you very much, Mr. Pryde. I am going to have placed in the record the article from the Wall Street Journal that describes your company and the uniqueness of your enterprise.

You always had responsible bidding and made every effort to survive, and you are here now as one who probably this bill will not help. At the same time, it is an indication again of your devotion to this very important industry.

[The prepared statement of Mr. Pryde and the article follow:]

STATEMENT OF
THE NATIONAL ASSOCIATION OF HOME BUILDERS (NAHB)
before
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
on
TIMBER CONTRACT RELIEF
on
APRIL 22, 1983

Mr. Chairman and Members of the Committee:

My name is Harry Pryde and I am a homebuilder and developer from Seattle, Washington. I am testifying on behalf of the more than 107,000 members of the National Association of Home Builders (NAHB). NAHB is a trade association of the nation's homebuilding industry, of which I am President.

I am pleased to be able to present NAHB's views on the contract relief legislation being considered. Because it is fundamental to our argument, I would first like to outline the status and outlook of the homebuilding industry.

STATUS OF THE HOUSING INDUSTRY

The housing recovery has received much attention recently as one of the only bright spots in the economic picture. I would agree that there is a real recovery although modest and fragile. The signs are mixed, but pointing upward.

- /Building permits jumped in March 1983 to a rate 69 percent above the March 1982 rate. This increase in permit activity reflects the builder's sense of optimism for recovery this year.
- The annual rate for housing starts in March was 75 percent above the level one year ago. Actual starts were at a seasonally adjusted rate of 1.611 million units compared to 920,000 in March 1982. This was a 9 percent decline from February 1983 rate of 1.775 million units. The quarter as a whole was the best first quarter since 1979.
- Sales of new single family homes in February were at an annual rate of 558,000 units, 49 percent over the February 1982 figure. Sales of existing homes in February were up 24 percent from a year ago.
- The inventory of unsold new homes has risen by 7 percent in the last three months, a reflection of the confidence of builders for an economic recovery.
- Construction unemployment stood at 20.3 percent in March, after dropping below 20 percent in February for the first time since June.

In 1982, the housing industry operated at its lowest levels of production since 1946. Starts in 1982 ended up at 1.07 million, about 47 percent below the peak of the previous cycle in 1978. New home sales were at their lowest level since the Census Bureau began its sales survey in 1963. Construction unemployment averaged 20 percent, the highest level since the Bureau of Labor Statistics began its monthly unemployment survey in the late 1940's. Mr. Chairman, you could say that we in the housing industry (with the exception of some of our builders in Texas and other isolated areas) are very happy that 1982 has ended.

At this time, mortgage interest rates are in the 12 percent to 13.5 percent range, substantially higher than rates in 1976 when the industry recovered from its last major recession. It should be noted that this modest recovery is underway without the type of government assistance (Brooke-Cranston and tax credit for home purchase) provided to assist recovery from the 1974-75 downturn. That may account in part for the slow and modest recovery now occurring. In fact, our Economics Division has projected that government-assisted production of all types will be down by more than 50 percent from 1982 to 1983. And most of that limited activity in 1983 will be in rural housing programs.

OUTLOOK FOR THE HOUSING INDUSTRY

Based upon NAHB's most recent econometric forecast, total housing production is expected to increase by 40 percent to 1.50 million in 1983. Single family activity is expected to reach 1.033 million units with multifamily at 464,000. Our most recent forecast has shifted some units out of multifamily and into single family. This is based upon the assumption that multifamily production is not picking up as quickly as anticipated from the decline in Section 8 activity, while single family production is responding more quickly due to the interest rate decline.

Let me be specific about the assumption variables which were used to develop the forecast. We are assuming a decline in AAA bond yields and three month Treasury bills of one full percentage point between fourth quarter 1982 and fourth quarter 1983. The prime rate is projected to drop by almost three percentage points, to 9.2 percent in the fourth quarter of 1983.

Mr. Chairman, most forecasters have projected housing production to range between 1.4 million and 1.5 million units in 1983. At that level, this industry can only be expected to make a modest contribution to recovery of the overall economy this year. If housing production increases by 400,000 in 1983, that translates into an increase of 35 percent on a GNP basis for residential construction or $34 billion in fixed residential investment. This means about 630,000 manyears of employment in construction and related industries. These are virtually all private sector jobs.

But I must bring a note of caution to this discussion. If interest rates begin to head upward ... if the Federal Reserve Board returns to its strict monetarist policy ... or if federal budget deficits remain in the $200 billion range for the next few years ... our forecast would be as pessimistic as the actual level of activity in 1981 and 1982.

TIMBER CONTRACT RELIEF

NAHB supports the concept of contract relief for timber purchasers embodied in S. 916 and S. 848. Homebuilders want a competitive lumber market with varied supply sources. Small producers are a significant segment of the industry. Without relief from the expensive timber contracts bid before 1982, some small producers will go bankrupt. Fewer, larger producers will remain to serve the demand for lumber and wood products. Contract relief will enable more producers to stay in business.

While we believe that the contract relief granted should benefit primarily small companies, larger companies should not be denied relief from uneconomic contracts. The losses they would incur by default or by performance will serve no useful purpose but will only penalize them, making their recovery more difficut.

The predicament that the Northwest timber companies face is unusual and unlikely to be repeated. A number of factors combined to induce the timber companies to bid up national forest timber harvest contracts to unprecedented highs. Many of the small producers are wholly or almost wholly dependent on timber from national forests. Wilderness studies and the slow process of designating wilderness left substantial uncertainty about the supply of commercial grade timber from national forests. In the late 1970's, when these contracts were bid, economists were predicting a boom in the housing markets in the 1980's, when the timber would be needed. Faced with forecasts of a boom market, uncertainty about supplies, and almost total dependence on national forest timber, companies bid Douglas fir timber prices up to $432.20 per thousand board feet in 1980. That price was over 900 percent higher than the price in 1970.

Along with their assessment of the 1980's market, timber companies' expectations about prices led them to bid high. In the past as long as housing demand was strong, lumber price increases could be passed on to the customer without serious dampening of demand. Inflation too was expected to help make high bid prices viable at harvest time.

Finally, the bid system, which maximizes the price received by the government, tended to boost prices to speculative and spectacular levels. None at that time could foresee that changing federal monetary and credit policies would force interest rates up, choke off the housing demand, and thereby reduce the demand for lumber.

Contract relief makes common sense for all parties. For the companies, it keeps them in business or shores up their operations as they begin to recover from the depression. For consumers, it means more competition among suppliers. It will be a boost to the hard pressed economy of the Northwest states. It would hold some companies together, thus helping alleviate unemployment within the lumber industry. It would have secondary economic benefits for those whose businesses and jobs depend on the lumber industry. The local governments would benefit from the tax revenues that enable them to provide basic public services.

Contract relief makes sense for the federal government as well. The revenue loss projections made by the government on unperformed contracts are illusory. The Forest Service may collect damages from defaulting companies but it will not realize the full value of the contracts. Offset against the damages will be the lost receipts from prompt releases, unemployment compensation paid to laid off workers, and lost income taxes and corporate taxes on revenues generated by the companies that the federal government pushes into bankruptcy. Those truly interested in private enterprise will support this one-time measure designed to keep American industries operating.

NAHB endorses the contract relief proposals contained in both S. 916 and S. 884. We accept the judgment of the sponsors of the bills and the timber industry that the levels of relief are necessary to alleviate the situation. We are neutral on the purchaser road credit provision in S. 916.

We do want to make a suggestion as regards the provision requiring a cap on FY 1984 production in the Forest Service's Region VI. The provision should contain a mechanism to remove the cap in case housing demand resurges more quickly than currently anticipated. The cap would prevent the flooding of the market when housing production is insufficient to absorb the extra lumber placed on the market without depressing prices. However, if housing production is high, then timber above the cap should be made available to meet the demand and avoid windfalls to producers ready to take advantage of the relative scarcity of lumber. We recommend a trigger of an annual rate of 1.75 million starts for 3 successive months in FY 1984 to cause the cap to be removed.

LONG TERM SOLUTIONS

The long term remedy for the overall economic condition of the timber industry is the recovery of the housing industry. Lower interest rates are already generating some of the sales and housing starts needed to meet the housing demand. Housing starts for the month of March were running at an annual rate of 1.61 million, which rounded off the best first quarter since 1979.

In the first 14 weeks of 1983, the composite price of framing lumber rose 9.6 percent, from $208 to $228 per thousand board feet.

In none of the prior 4 years did prices increase so rapidly. That dramatic jump in prices is still well below the $400 plus levels at which the high priced contracts were bid. It is our hope that the housing recovery, even when in full swing, will not cause lumber prices to reach those high levels again. Such high levels are inflationary and make housing more expensive, thus reducing housing affordability.

One important way to dampen price hikes anticipated as housing production rises is to ensure that as many lumber producers as possible are operating. The production capacity is needed to meet demand and to lessen the price jumps that normally accompany increased levels of housing production. Forcing these companies into bankruptcy will leave fewer producers with less capacity. In response to market forces, those remaining will raise prices higher than if the extra production capacity were available to respond to demand.

Congress and the Administration can take steps to help prevent a recurrence of the problem that induced high bidding by the companies. Congress should proceed on a state-by-state basis to designate wilderness areas in accordance with the recommendations of the Second Roadless Area Review and Evaluation. Along with designations of wilderness, Congress should relase non-wilderness areas to multiple uses, including the production of timber. That would add a degree of certainty as to supplies of timber land from federal forests, which would help producers make more informed judgments when they bid on timber harvesting rights. The U.S. Forest Service and the Bureau of Land Management should authorize sufficient sales to reassure producers that they do not need to bid high or face severe shortages of their natural resource. Bidding procedures should also be revamped to reduce speculation while guaranteeing the government a fair price for the timber.

The bottom line for all concerned with the housing and lumber industries should be economic recovery. The revival of the housing industry will in time fully revive the lumber industry. In the meantime, we should not pursue rigid governmental policies that force companies into bankruptcy and cause unnecessary economic hardship. Virtually everyone loses if the contracts are enforced.

I appreciate the opportunity to present our views and will be glad to answer any questions.

Logging Sales

Small Sawmill Survives By Setting Its Blades For Exports to Japan

Amid Industry's Depression, Webco Turns Away Jobs; But Buyers Are Finicky

Close Rings & Careful Cuts

By Erik Larson
Staff Reporter of The Wall Street Journal

WILLIAMS, Ore. – Nine months ago, Webco Lumber Inc. was tottering.

Its Chico, Calif., sawmill was closed; its remaining Williams mill alternated a week of production with a week of silence. Half its employes had been laid off or had drifted away, unable because of shortened work hours to meet house payments and other obligations. The small, family-run company's lumber sales were down 50% from those of 1979, its best and last year of profits.

"It was disastrous for the people working here," says Barbara A. Webb, 34 years old, who became president in January. "It was horrible."

For most of the Western timber industry, conditions are still horrible. Last week, more than half of Oregon's approximately 30,000 sawmill workers were idled or working short hours, according to the Western Wood Products Association.

But Webco's band saw now is whining through wood as if the industry's depression were over. The company's sales are growing nearly as fast as in 1979, and it is even turning away orders. It expects to add 25 to 30 workers soon.

Barbara A. Webb

Behind this unlikely prosperity is the Webb family's decision to export most of its lumber to Japan. "I would say that's the only reason we're alive," Miss Webb comments.

That decision was a drastic step, one that cut against the grain of the lumber industry's traditional production techniques and marketing attitudes. U.S. lumber companies usually haven't cultivated the long-term relationships so important in international trade; they haven't tried to make lumber exports a stable segment of their business. Instead, they have tended to pursue exports only when domestic markets were soft.

"[illegible] been guilty as an industry of looking at exports from an opportunistic viewpoint," says Max Buxton, the Portland-based international sales manager for Boise Cascade Corp. Robert H. Hunt, the marketing-services director for the Western association, agrees that "the U.S. has had a hell of a reputation as an inner and outer" in wood-products exports, but he adds: "I don't think it's ever going to be that way again; (exports) are going to be a regular part of the business."

Growing Competition

The Northwest timber industry's vitality could well depend on such a change, some executives contend. The industry's two-year slump has clearly drawn many producers more heavily into exports. Moreover, growing competition from Canadian and Southern U.S. lumber companies has closed Western concerns out of many of their traditional Midwestern and Eastern markets. This trend is being accelerated by rising land-freight rates that have made it cheaper to ship lumber to Japan than even to Montana.

"It's really only in self-defense that we're turning to the export markets," says George Baker, a marketing manager for Simpson Timber Co. in Seattle.

The challenges and the opportunities of exporting wood are best illustrated by Japan. Although perhaps the most difficult market for U.S. producers to understand, Japan is also the largest one overseas; despite Japan's own economic problems, its traders have continued to buy lumber from companies willing and able to meet their exacting standards.

Japanese purchases are worth the aggravation, exporters say. They "kept us in business," says Vernon Lindgren, the general manager of Michigan-California Lumber Co. of Camino, Calif. But even companies with the right species of wood and sufficiently flexible equipment find it a "tough, very competitive market," says Lawrence Kromer, the manager of the international division of Avison Lumber Co. in Molalla, Ore.

Satisfying Customers

Webco's success came through patience and a willingness to produce lumber to Japanese standards and specifications, according to David D. Lutjen, an international-trade specialist with the Oregon Department of Economic Development. The company is "cutting the product the market requires," he says. "That's the name of the game."

But that isn't the game that everyone in the industry wants to play. Industry associations, for example, are trying to promote the U.S. two-by-four construction technique in Japan. They argue that its interlocking frame of hidden two-by-fours is a stronger, faster and cheaper way to build a house than the traditional Japanese post-and-beam method, which uses about 30% less wood and relies on square posts and beams for support. Promoting the two-by-four method, however, is about like trying to sell Americans Toyotas with steering wheels on the right. "Frankly," Mr. Hunt observes, "it hasn't taken the market by storm."

On the other hand, U.S. forest-products companies have often got into hot water over their usual exports—uncut logs or logs trimmed just enough to skirt federal restrictions barring export of logs harvested from federal land. Sawmill workers' unions and

THE WALL STREET JOURNAL, Friday, May 7, 1982

Logging Sales: Small Sawmill in Oregon Is Surviving By Setting Its Blades for Lumber Exports to Japanese

Continued From First Page

politicians have complained that exports of unprocessed logs involve exports of jobs.

When the Webbs began looking at the export market last summer, they already were in trouble. Miss Webb says their company had sustained about two years of losses, had laid off workers and had postponed pay raises. It was keeping its Williams mill open to hold on to its crew and to avoid the even heavier losses that closure would entail. "We were at a point where it was actually a good time for us to make a transition," Miss Webb says. "It was probably the riskiest time, but also the best time."

The state agency's Mr. Lutjen comments: "They did everything right. They sat back and said, 'Hey, we aren't going to make it in this domestic market the way things are going.' "

So they went to Japan—with a trade mission led by Mr. Lutjen. Shortly before the trip last July, Ronald Webb, Miss Webb's 40-year-old brother who is sales manager, secretary and treasurer, questioned whether they could afford the travel costs—about $5,000. "We were having a difficult time paying bills," Miss Webb notes. All the same, she recalls telling her brother, "I don't think we can afford not to go."

The two of them made the trip, along with executives of four other independent lumber companies. In the course of 14 days, the Webbs met in individual conferences with about 60 Japanese companies. They quickly learned that the Japanese wanted U.S. lumber. "They were very enthusiastic," she says. "That was probably the key thing. They were actually anxious to buy."

Soon after returning to Williams, the two got further confirmation that the trip had been a good decision. Within six weeks, about two dozen Japanese companies sent representatives to their mill. "They did everything from measuring the thickness of our saw to measuring the ring counts of our logs," Miss Webb says. "They are really particular. They're going to find out whether you can do it or not." Adds Ronald Webb with a grin: "They're real tire-kickers."

Appearance Important

Such exacting requirements have been a major obstacle for U.S. lumber companies considering exports to Japan. The Japanese treat wood the way a wine connoisseur treats grapes. "American people require wood for strength," says Kiyoshi Komina, a vice president of Portac Forest Products Inc., a Tacoma, Wash., unit of Mitsui & Co. of Tokyo. "Japanese consider that more secondary. Japanese more highly appreciate the outside look"—largely because post-and-beam construction often leaves much or all of the wood exposed.

Japanese wood buyers know exactly what they want. Almost the first words out of their mouths, Miss Webb says, are "Cascade-type"—such as the hemlock, white fir and Douglas fir grown in the Cascade range. But not just any Cascade-type lumber will do.

The Japanese want wood harvested from the western slopes of the Cascades between altitudes of 2,500 and 4,500 feet, Mr. Lutjen says. At those altitudes, trees grow more slowly, building a tighter ring count and, therefore, a more attractive grain. Mr. Lutjen says the Japanese insist on 20 rings per inch. "Well," says a Japanese trader with a smile, "that is the ideal." His minimum is eight rings.

Japanese lengths and sizes present more problems. U.S. sawmills normally are set up to cut wood in lengths that are multiples of two feet; thus, standard lengths for two-by-fours are 12, 14 and 16 feet. But a common Japanese length is four meters—13.12 feet. To adapt to that length, an American company has to make changes not only at its mill but also in the forest, where felled trees are "bucked" to the desired lengths for transport to the mill.

Accuracy Emphasized

The Japanese are sticklers for accuracy, too. L. Lee Rappleyea, the wood-products export sales manager for Louisiana-Pacific Corp. in Portland, says many domestic mills are geared to such high rates of production that "you don't get the accuracy the Japanese need."

The basic two-by-four, for example, is supposed to be cut to 1½ inches by 3½ inches, according to industry grading rules. However, only about 75% of the two-by-fours cut in a high-volume mill meet those specifications, says William R. Spannaus, the chief lumber inspector for the Western Wood Products Association. "There's going to be a few that are going to be over; there's a few that are going to be under," he says, though he adds that newer mills are far more accurate.

But when a Japanese buyer says he wants a 90-millimeter-by-90-millimeter square, he means it. "After this depression started, lots of mills have tried, and many very successfully, to cut Japanese sizes," Mr. Spannaus says. "But many have failed."

Webco's first major Japanese order, cut last November, was its toughest, Miss Webb says. The buyer sent an American and a Japanese representative to monitor the cutting and planing. From time to time, the Japanese man would halt the process to check the dimensions of the lumber. Normally, the mill could have cut an order of that volume in 1½ days, but the Japanese order took nearly twice that. "It was so slow it was really getting on everyone's nerves," Miss Webb says.

Guest House Planned

The unfamiliar sizes still slow the mill's production, and customers continue to insist on watching their orders be cut. To accommodate them, Webco is converting its former headquarters building into a guest house, Miss Webb says. (It was largely her own single-minded pursuit of exports, she indicates, that prompted Webco's four directors—her father, two brothers and herself—to name her president in January after her father stepped down. There's also another reason: "I'm the meanest one in the bunch," she jokes.)

Many U.S. companies remain reluctant to commit mills to production for the Japanese. "Japan is a great market when it's good," Boise Cascade's Mr. Buxton says, but he adds, "What happens to that mill when the Japanese market goes on the skids?" Last year, for example, the Japanese lumber industry asked U.S. producers to slash their exports to Japan in half.

Miss Webb says she is aware of the risks of concentrating on exports to Japan. But, she says, "when you're faced with no business at all, and maybe losing everything you worked for for 30 years, you do it."

Continuing Interest?

Some exporters are also skeptical that lumber companies now aiming at the Japanese market will continue serving it once demand improves in the U.S. A manager of a major Japanese trading company says he expects many companies to give up exports. Thomas Spence, an officer of Pacific Lumber & Shipping Co., a family-owned lumber exporter and producer, agrees. "If the situation reverses itself," he says, "I would venture to say that a lot of mills looking at the Japanese market now would beat a hasty retreat back to the U.S. market."

Webco says it won't, although it does plan to broaden its markets once lumber demand picks up. But, Miss Webb adds, the company's experience "convinced us that we will never turn our backs on exports."

Things aren't completely rosy in Williams, of course. Interest costs of financing inventory and accounts receivable still eat heavily into profits, and banks need constant reassurance. "They watch every move we make," Miss Webb says. "But we're making it."

Senator **Hatfield**. Thank you all. I would like now to call the next panel—John Davis, Gary Jones, and Mike Burrill. Mr. Burrill, do you want to lead off?

STATEMENT OF MICHAEL E. BURRILL, PRESIDENT, EUGENE F. BURRILL LUMBER CO., MEDFORD, OREG.

Mr. **Burrill**. Mr. Chairman, members of the committee, my name is Michael Burrill, president of the Eugene F. Burrill Lumber Co. in Medford, Oreg. I am also the current president of the northwest timber association, a trade association of independent lumber and plywood manufacturers in western Oregon and southwestern Washington.

Burrill Lumber Co. is a small, family-owned and operated company that produces high-quality 2 by 4 studs for use in framing of homes. We have been in business for over 35 years and have developed a very efficient production facility that relies totally on the U.S. Forest Service and BLM timber for our timber supply.

I appreciate the opportunity to share with you some of the problems facing my company and other operators in the northwest.

The last few months have been rather interesting for those of us in the forest products industry. We have seen increases in prices and demand in a very short period of time that had never before been experienced by our industry. This increase was followed immediately by a collapse of prices almost as drastic as the increase. Many people only remember the up side and fail to account for the down side and thus they are now saying that our problems are either over or at least over or at least minimized to the point we no longer need contractual relief.

If anything, we need relief more today than we did 6 months ago. Operators have continued to cut on the lower-priced volume due to the markets, and the result is that of the approximately 20 billion feet under contract in region 6 of the Forest Service, in excess of 80 percent of that volume is economically inoperable even on today's markets.

It must be remembered that this problem must be considered on an industry basis and not on an individual company basis. Individual company problems can change due to changes made to try to survive. We are looking at every potential solution to a very complex problem. Thus our businesses are continually changing.

Perhaps the most widely overlooked part of the problem is volume. Most everybody talks about the high prices, but we must also recognize that even if stumpage was free we would still have a problem due to volumes under contract and contract termination dates. A lot of people in and out of our industry are expressing concern with some of the contract bid levels in the West. Along with that concern we are hearing comments that we have apparently not learned from the past and that the industry should not be granted relief from past commitments unless we develop some fiscal responsibility on current commitments.

It must be recognized that the average bid level in the west side of region 6 for the first quarter of 1983 was approximately $142 a thousand as compared to $360 a thousand in 1980. Even though individual sales are high priced, the average through the first quarter has not gone completely out of line as some people have stated. I have commented in the past, and I think it must be stated again, that high timber prices are a direct result of uncertainties brought about by either actual or perceived shortages, current and in the future. These current uncertainties to some degree are aggravated by the continuing problem from the past.

We must find a solution so that the overhang of volume from the past is cleared up and we can then continue to work on fiscal responsibility in the future.

Due to the complexity of the problem and after analyzing a wide range of potential solutions, the bulk of the industry in the northwest and for that matter nationwide support S. 916 and commend the sponsors of the bill for their leadership and continued commitment to solve our very serious problem.

[The prepared statement of Mr. Burrill follows:]

Statement of
Michael E. Burrill, President
Eugene F. Burrill Lumber Company
Medford, Oregon

Before The
Senate Committee on Energy and Natural Resources
April 22, 1983

Mr. Chairman and Members of the Committee:

My name is Michael Burrill, President of Eugene F. Burrill Lumber Company in Medford, Oregon. I am also the current President of the Northwest Timber Association, a trade association of independent lumber and plywood manufacturers in western Oregon and southwestern Washington.

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The last few months have been rather interesting for those of us in the forest products industry. We have seen increases in prices and demand in a very short period of time that had never before been experienced by our industry. This increase was followed immediately by a collapse of prices almost as dramatic as the increase. Many people only remember the upside and fail to account for the downside and thus they are now saying that our problems are either over or at least minimized to the point that we no longer need contract relief.

If anything, we need relief more today than we did 6 months ago. Operators have continued to cut only the lower priced volume due to markets and the result is that of the approximately 20 billion feet under contract in Region 6 of the Forest Service (Oregon and Washington), in excess of 80 percent of that volume is economically inoperable even on today's markets.

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Senator HATFIELD. Thank you, Mr. Burrill.
Mr. Davis.

STATEMENT OF JOHN W. DAVIS, GENERAL MANAGER, WESTERN TIMBER & LOGGING, WILLAMETTE INDUSTRIES, INC., ALBANY, OREG.

Mr. DAVIS. Senator Hatfield, members of the committee, my name is John Davis. I am general manager of the Western Timber & Logging Operations for Willamette Industries of Portland, Oreg.

Before continuing my remarks, with your permission, sir, I would like to introduce a couple of documents into the record.

One of them is a position paper submitted by a number of western timber associations generally supporting S. 916. The other document is an excerpt from the spring edition of the Willamette Review. It is just coincidence that I happened to run across this at this late date but it is an article describing Federal timber contracts and who will bear the ultimate costs if Congress denies modifications to this contract. It is unique in that it was written by a non-legally trained person, Mr. John Hampton, who is a small mill owner in northwestern Oregon, and I think you will agree with me if you have time to read it, it is a very well-written position paper.

Senator HATFIELD. Both of those will be accepted for the record.

Mr. DAVIS. Thank you. The next thing I would like to do is associate myself with the remarks made by Senator Barry Keene of California. He really gave my presentation in a much more eloquent manner than I could have, and there is no sense my repeating the written remarks that are very similar to Senator Keene's, and instead I would like to use my time to engage in a rather dangerous practice, and that is get into some extemporaneous remarks about this problem and some issues that have been raised within the past couple of days and some that have been raised this morning.

One of the questions that keeps coming up is whose fault is this mess that the timber industry finds itself in? And it is my opinion that there is enough blame to go around in several areas. It is partly the problem that the industry got itself into. There is no question about that. The industry bid the timber sales.

A good deal of the blame belongs with the Federal Government. A good deal of that belongs in the administrative branch because of the way that timber sales have historically been sold. A good deal of it belongs in the legislative branch, and a good deal of it belongs in the administration. I feel that one of the things that has plunged our industry to the point of infinity that it finds itself or has recently found itself was the Monetary Control Act of 1980. It destroyed the traditional source of low-cost funds for housing in this country. Hopefully we can fine some way to crawl away from that abyss and find some other method of funding homes in a low-cost manner.

Another area that receives a lot of comment is the area of recovery. Here we read articles in the newspapers that, in Oregon at least, that the mills are going back to work. Unemployment is declining, and things are getting rosy. People then project this timber area rosy economic setting into the future and say if these people will just hang on for a while they will be able to eat up this overhang of very, very expensive timber.

I tend to disagree with that line of thought. One of the reasons that unemployment is going down and mills are starting up in Oregon and elsewhere in the West is because of the program of short-term timber sales that both the Federal agencies that sell timber in our part of the country, BLM and the Forest Service, have embarked upon. This has put timber on the market on a short-term basis that has been bid at prices that are economically viable prices. Therefore, those mills have been able to operate and can operate, but when the day of reckoning comes on this overburden of high-priced timber sales, those things are going to change. As soon as the mills have to start utilizing $300, $400 a thousand timber in those mills, the economic picture will not be nearly as rosy.

I guess the last area I would like to talk about is one that you, Senator Hatfield, opened your remarks with, and that is this area of speculation that appears to be rampant again or at least taking off again.

In the first place, I must tell you that we, too, are concerned. I must also remind you that the Forest Service has taken some steps to try and curb the speculative fever. Perhaps those steps have not gone far enough yet and there is a good segment of the industry that supports strengthening some of those steps, but they have taken hold. We now are required to put a down payment on a timber sale. It represents only 5 percent of the value of that sale, but it is a start. It is a lot better than we used to have which was no down payment.

We have increased bonding capacity, increased bonding limits on a timber sale. We now have to put up much higher performance bonds than we used to have.

Another innovation that they imposed upon us is the discount for early removal, and I submit to you that that discount tends to mask what is really happening in the bidding arena out there. On any timber sale that exceeds 36 months in length—Forest Service timber sale I am referring to—the purchaser is eligible for discounts up to a maximum of 25 percent of the bid value for removing that timber earlier than the final year of the contract. It is a rather complicated little equation, but the entire discount procedure is based upon whatever the current borrowing rate is for the Federal Government at the time that the timber sale is sold and the discounts increase as you move toward the beginning of the contract and can be as much as 25 percent, so when we read about Douglas-fir being bid to $400,000, that number is erroneous because many times the people that bid to that level were planning on removing the timber about in the first or second year of the contract and would be paying actually much less than the bid price for that timber.

[The prepared statement of Mr. Davis and additional material follow:]

STATEMENT OF JOHN W. DAVIS
GENERAL MANAGER, WESTERN TIMBER & LOGGING
WILLAMETTE INDUSTRIES, INC.
PORTLAND, OREGON
BEFORE THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE
ON
SENATE BILL 916
APRIL 22, 1983

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM JOHN W. DAVIS, GENERAL MANAGER OF WESTERN TIMBER AND LOGGING OPERATIONS FOR WILLAMETTE INDUSTRIES, INC., OF PORTLAND, OREGON. OUR FIRM IS A MEDIUM-SIZED FOREST PRODUCTS COMPANY WITH PLYWOOD AND SAWMILL PLANTS LOCATED IN THE WILLAMETTE VALLEY OF WESTERN OREGON, NORTHERN LOUISIANA, AND SOUTHERN ARKANSAS. IN ADDITION, WE MANUFACTURE PARTICLEBOARD, AND PULP AND PAPER FROM THE WASTES OR RESIDUALS FROM THESE ROUNDWOOD USING MILLS. WE THEN FURTHER PROCESS THE PAPER MANUFACTURED IN THESE PLANTS INTO CORRUGATED CONTAINERS, GROCERY BAGS, AND BUSINESS FORMS IN VARIOUS LOCATIONS THROUGHOUT THE COUNTRY. IN ALL, WE HAVE 56 PLANTS LOCATED IN THIRTEEN STATES AND EMPLOYING 8500 PERSONS.

THE BASIC RAW MATERIAL FOR OUR INTEGRATED MILLING OPERATIONS IS LOGS. IN WESTERN OREGON, ROUGHLY HALF OF THE LOGS WE USE COME FROM TIMBER SALES PURCHASED FROM THE U. S. FOREST SERVICE AND THE BUREAU OF LAND MANAGEMENT. THESE TIMBER SALE CONTRACTS ARE NORMALLY ENTERED INTO THREE TO FIVE YEARS PRIOR TO THEIR ACTUAL HARVEST TO ALLOW TIME TO CONSTRUCT THE NECESSARY ROADS AND TO PROVIDE A SUITABLE MIX OF TREE SPECIES AND GRADES TO MEET THE NEEDS OF OUR MILL COMPLEXES. A PREDICTABLE AND STEADY OFFERING OF TIMBER SALES IS VITAL TO US AND TO THE WESTERN INDUSTRY IN GENERAL IF WE ARE TO CONTINUE OPERATING IN AN ORDERLY FASHION.

AS YOU ARE NO DOUBT AWARE, THESE TIMBER SALES ARE OFFERED IN A HIGHLY COMPETITIVE ATMOSPHERE OF AUCTION BIDDING. THE LEVEL OF

BIDDING ATTAINED IS A FUNCTION OF THE EFFICIENCY OF THE OPERATORS COMPETING FOR THE PARTICULAR SALE, THE FUTURE DEMAND FOR THEIR PRODUCTS AS PERCEIVED BY THESE OPERATORS, AND THE FUTURE OUTLOOK FOR A CONTINUING SUPPLY OF FEDERAL TIMBER.

TODAY, MOST MILLS IN THE WEST ARE VERY EFFICIENT PLANTS. MILLIONS OF DOLLARS HAVE BEEN SPENT BY THEIR OWNERS TO ASSURE LOW COST, HIGH RECOVERY OPERATIONS. FORECASTS OF FUTURE DEMAND FOR BUILDING MATERIALS AND THE PERCEIVED DECLINE IN FEDERAL TIMBER SUPPLIES MANDATED THESE EXPENDITURES IF THE PLANTS WERE TO SURVIVE.

DURING THE DECADE OF THE 70'S, THE NUMBER OF HOMES BUILT THROUGHOUT THE NATION ROSE STEADILY, YEAR BY YEAR, FINALLY PEAKING IN 1978 AT MORE THAN TWO MILLION UNITS. FORECASTERS SUCH AS DATA RESOURCES, INC., AND THE U. S. FOREST SERVICE ITSELF, PREDICTED THE DEMAND FOR LUMBER AND PLYWOOD PRODUCTS WOULD CONTINUE TO INCREASE THROUGH THE 1980'S. ON THE OTHER HAND, GOVERNMENT POLICIES WERE DECREASING THE SUPPLY OF FEDERAL TIMBER AVAILABLE FOR FUTURE SALE. THE RARE I AND II PROCESSES WERE AIMED AT STUDYING VAST ACREAGES OF FEDERAL TIMBER LANDS FOR THEIR SUITABILITY AS WILDERNESS. SUBSEQUENTLY, LEGISLATION WAS INTRODUCED IN CONGRESS TO CREATE WILDERNESS FROM LARGE AREAS OF COMMERCIAL FOREST LAND, THREATENING MASSIVE REDUCTIONS IN THE ALLOWABLE HARVEST LEVELS. THIS COMBINATION OF FACTORS FORCED THE BIDDING FOR PUBLIC TIMBER TO APPROACH HYSTERICAL PROPORTIONS. PRICES CONTRACTED FOR THE PURCHASE OF DOUGLAS-FIR IN WESTERN OREGON ESCALATED FROM AN AVERAGE OF $41.90 PER THOUSAND BOARD FEET IN 1970 TO $432.20 IN 1980.

THE END OF THIS SPIRAL CAME IN 1980. INFLATION HAD REACHED DOUBLE DIGIT LEVELS. THE PRIME LENDING RATE EXCEEDED TWENTY-ONE PERCENT. FEDERAL BORROWINGS TO FINANCE OUT-OF-CONTROL GOVERNMENT SPENDING PRESSURED FINANCIAL MARKETS TO NEAR COLLAPSE. THE FEDERAL RESERVE BOARD TOOK THE UNPRECEDENTED STEP OF IGNORING INTEREST RATE FLUCTUATIONS IN SETTING POLICIES DESIGNED TO REDUCE THE SUPPLY OF MONEY AND CREDIT. CONGRESS AND THE ADMINISTRATION PASSED THE MONETARY CONTROL ACT OF 1980 WHICH DEREGULATED THE BANKING INDUSTRY THEREBY INALTERABLY DIMINISHING THE LARGEST SOURCE OF MORTGAGE MONEY AVAILABLE TO THE AMERICAN PUBLIC. FINALLY, THE REAGAN ADMINISTRATION REDUCED HOUSING FROM ITS LONG-HELD POSITION OF HIGH PRIORITY IN THE NATIONAL ECONOMIC SCHEME TO A POSITION INFERIOR TO REBUILDING THE NATION'S INDUSTRIAL INFRASTRUCTURE. THIS PROVED TO BE THE LAST NAIL IN THE TIMBER INDUSTRY'S COFFIN.

WE NOW FIND OURSELVES HOLDING THE BAG THAT GOVERNMENT HELPED US FASHION. THAT BAG IS OVERFLOWING WITH TIMBER SALE CONTRACTS TOO EXPENSIVE TO OPERATE NOW OR IN THE FORESEEABLE FUTURE. IF NO RELIEF FROM THESE UNREALISTIC CONTRACTS IS FORTHCOMING, MASSIVE DEFAULTS WILL ENSUE AND DEVASTATION WILL BE WROUGHT, NOT ONLY ON OUR INDUSTRY, BUT ALSO ON THE LOCAL GOVERNMENTS, SCHOOL DISTRICTS, AND SMALL BUSINESSMEN WHO ARE UNIQUELY DEPENDENT UPON A HEALTHY TIMBER INDUSTRY IN THE WEST.

THE RELIEF WE ASK FOR IS NOT A "BAIL-OUT" AS IT HAS BEEN POPULARLY CHARACTERIZED. WE ARE NOT ASKING FOR A HANDOUT OR EVEN A ROLLBACK IN CONTRACT PRICES. INSTEAD, WE ARE ASKING THAT OUR CONTRACTS WITH THE GOVERNMENT BE MODIFIED TO REFLECT THE RADICALLY DIFFERENT CIRCUMSTANCES WE ARE FACED WITH TODAY SO THAT WE MIGHT OPERATE OUR CONTRACTS FOR THE BENEFIT OF ALL

CONCERNED. NO ONE WINS IF LARGE SEGMENTS OF THE INDUSTRY GO BANKRUPT, DRAGGING DOWN LOCAL GOVERNMENTS AND OTHERS DEPENDENT ON THEM. S.916 PROVIDES AN EQUITABLE REMEDY TO HELP SOLVE CONTRACTUAL OBLIGATIONS ON WHICH PERFORMANCE IS IMPOSSIBLE. THIS BILL, WHEN ENACTED INTO LAW, WILL CONVERT THESE INOPERABLE CONTRACTS FROM A PUBLIC LIABILITY TO A PUBLIC ASSET.

AS YOU ARE AWARE, THIS BILL WILL ALLOW THE TERMINATION OF UP TO 40 PERCENT OF A PURCHASER'S TIMBER UNDER CONTRACT AS OF DECEMBER 31, 1981; EXTEND FOR FIVE YEARS WITHOUT PENALTY THE REMAINING CONTRACTS HELD ON THAT DATE; IMPROVE THE WAY THE FEDERAL GOVERNMENT COMPENSATES PURCHASERS FOR REQUIRED ROAD CONSTRUCTION; AND LIMIT THE VOLUME OF FOREST SERVICE TIMBER SOLD IN REGION 6 (OREGON AND WASHINGTON) DURING FISCAL YEAR 1984 TO INSURE AGAINST REGIONAL MARKET DISLOCATIONS DUE TO THE RESALE OF DISTRESSED TIMBER.

S.916 FURTHER REQUIRES THAT PURCHASERS REIMBURSE THE GOVERNMENT FOR RESALE COSTS OF THE TERMINATED SALES IN THE AMOUNT OF $3.00 PER THOUSAND BOARD FEET OR $20,000 PER CONTRACT. IT ALSO PROVIDES THAT PURCHASERS MUST EITHER OPERATE TWENTY-FIVE PERCENT OF THE VOLUME ON EXTENDED SALES BY THE END OF THE THIRD SEASON OF THE EXTENSION OR PAY TWENTY-FIVE PERCENT OF THE SALE PRICE. ALL IN ALL, THIS PROPOSED LEGISLATION PROVIDES A FAIR AND EQUITABLE SOLUTION TO THIS POTENTIALLY DEVASTATING PROBLEM.

CONCLUSION:

DESPITE THE RECENT IMPROVEMENT IN OUR ECONOMY, RECOVERY IN THE HOME BUILDING SECTOR WILL NEITHER OCCUR IN TIME NOR WITH THE INTENSITY TO JUSTIFY THE HARVEST OF THE MORE THAN SIXTEEN

BILLION BOARD FEET OF DISTRESSED FEDERAL TIMBER UNDER CONTRACT. CONSEQUENTLY, ECONOMIC REALITY WILL FORCE MASSIVE DEFAULTS AND WILL RESULT IN ECONOMIC CHAOS FOR OUR WESTERN INDUSTRY AND DEPENDENT COMMUNITIES. ADMITTEDLY, THESE TIMBER PRICES WERE BID TO UNREALISTIC LEVELS BY THE INDUSTRY ITSELF. THIS WAS DONE, HOWEVER, IN RESPONSE TO PRIVATE AND GOVERNMENT FORECASTS INDICATING UNPRECEDENTED DEMAND FOR BUILDING MATERIALS DURING THE DECADE OF THE 80'S, WHILE ENVIRONMENTAL AND WILDERNESS REGULATION AND LEGISLATION POINTED TO DIMINISHING TIMBER SUPPLIES. WITHOUT THIS LEGISLATION, THE RESULTANT SOCIAL COSTS WILL BE ENORMOUS -- FURTHER DISLOCATION OF A BATTERED ECONOMY, REDUCED FEDERAL, STATE, AND LOCAL REVENUES, BANKRUPTCIES, AND UNEMPLOYMENT. CONGRESS NOW CARRIES THE BURDEN OF BRINGING ABOUT TIMELY MODIFICATION OF THESE CONTRACTS SO THE PRIMARY INDUSTRY OF THE WEST CAN SURVIVE TO THE BENEFIT OF ALL OUR CITIZENS.

THANK YOU.

ARTICLES

WILLAMETTE LAW REVIEW

19:2 Spring 1983

FEDERAL TIMBER CONTRACTS: WHO WILL BEAR THE ULTIMATE COSTS IF CONGRESS DENIES MODIFICATIONS?

JOHN C. HAMPTON
CAROL A. WOOD*

INTRODUCTION

When economic trauma strikes Oregon's forest industry, the entire state feels the impact. Ninety-five thousand Oregon jobs depend directly on the forest industry.[1] It is estimated that for every primary job there are two dependent jobs in related functions ranging from logging supply and insurance to the local supermarket.[2] Forty-four percent of the state's manufacturing jobs depend on the forest products industry.[3] Annual payrolls contribute $1.6 billion to Oregon's economy, and total income generated from sales and payrolls in

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* John C. Hampton is President and Chief Executive Officer, Hampton Affiliates of Portland, Oregon. Carol A. Wood is Vice President, Public Affairs, of Hampton Affiliates. The authors were actively involved in industry-wide discussion and formulation of policy, in concert with both regional and national timber products organizations, which culminated in the proposed legislation discussed in this Article. The authors would like to express their appreciation to Kathryn Miller, Willamette College of Law graduate (1983), for her able assistance in preparing this Article.

[1] Oregon Forest Indus. Council, Forestry Facts in Oregon and the U.S.A., side 1 (May 1980) (OFIC is a division of Associated Oregon Industries, P. O. Box 12519, Salem, OR 97309) [hereinafter cited as Forestry Facts].

[2] *Id.*

[3] *Id.*

1979 alone was $6 billion.[4] In addition, local governments share in timber sale revenues for schools and road maintenance.[5]

The timber industry has played a major role in Oregon's heritage since the earliest pioneers came to the state. It can continue to play a leading role only if sound forest policy is followed and provided there is a sensible solution to the current dilemma facing public timber purchasers.

Public and private forecasts made during the mid-1970s each indicated that domestic housing needs and world demands would double in the 1980s from the 1975 levels.[6] Based primarily on these projections a strong belief arose that demand for lumber would increase significantly in the 1980s. At the same time the industry in the mid-1970s was facing the prospect of a decreasing supply of raw material.[7] Finally, government shifts in policy and law radically changed the environment in which the industry operated. As a result of all these factors, by 1982 as much as ninety percent of the volume of timber under contract could not be harvested without massive losses.[8]

This Article will describe the nature of public contracts for the sale of timber and events which escalated the prices bid for the 1979 contracts. Legislative alternatives to modify existing timber contracts at the state and federal levels will be analyzed from the perspective of the timber industry. The industry's proposal for economic recovery will be explained and substantiated.

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[4] *Id.*

[5] 16 U.S.C. § 500 (1950) states:

> Twenty-five percentum of all moneys received during any fiscal year from each national forest shall be paid at the end thereof by the Secretary of the Treasury to the State or Territory in which said national forest is situated, to be expended as the State legislature may prescribe for the benefit of the public schools and public roads of the county or counties in which the national forest is situated.

[6] National Forest Prod. Ass'n, Wood Supply Goals for U.S. Consumers 3 (1980) [hereinafter cited as Goals]. The National Forest Products Association coordinates the use of statistics by the U.S. Forest Service, the Bureau of Land Management, the American Forest Institute, the American Pulp Institute, and the American Pulp and Paper Association, insuring that all industry figures are comparative. Additional source of forecasts is ECONOMIC SERVS. FORECAST (published by the Western Wood Products Ass'n., Yeon Bldg., Portland, OR 97204).

[7] See *infra*, note 34 which lists environmental legislation that subtracted acreage from commercial timberland, and added to wilderness or roadless areas.

[8] P. Ehinger, Statement in Support of a Timber Industry Proposal for Modification of Federal Timber Sale Contracts 4 (Aug. 17, 1982) (prepared Statement presented at Hearings on S. 2805 and S. 2818 Before the Subcomm. on Public Lands & Reserved Water of the Senate Comm. on Energy & Natural Resources, 97th Cong., 2d Sess.) (P. Ehinger is Executive Vice-President, Western Resource Alliance) [hereinafter cited as Statement].

I. Elements of the Dilemma

A. Federal Contracts are Vital to Northwest Industry

The area comprising the western portion of Oregon and Washington is the single largest source of lumber and plywood in the United States.[9] Although private companies own significant timber acreage in this area, over half of the timber is owned and administered by the U.S. Forest Service or the Bureau of Land Management (BLM).[10] Most companies in this area depend heavily on the publicly-owned timber for their raw material; in fact, many are completely dependent on public timber.[11] Bidding for the right to harvest federal timber is competitive because of the large number of companies in the region. Timber is typically harvested from two to five years after acquisition of a contract, forcing bidding companies to estimate future product prices when determining their bids.[12] This fact, and the fluctuating supply of federal timber, causes the bids to be speculative under normal conditions.

By regulation, timber sales from federal lands are advertised one month prior to the sale date within the area of the sale.[13] Prospective purchasers are also notified by mail.[14] The notice of sale describes the location and area, whether sealed or oral bidding will be used, and whether the sale is a small business set-aside sale.[15] The notice includes the minimum acceptable bid rates, established through appraisal by the Forest Service, and urges bidders to make their own cruises[16] to estimate the profitability of timber offered. Interested bidders inspect the timber to determine the suitability for acquisition and manufacture. To participate, bidders must furnish either a cashier's check or a bid bond.[17]

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[9] The two states produce 51.6% and 37.3% of softwood plywood and lumber, respectively, compared to the entire southern region of 13 states. Industrial Forestry Ass'n, Is Industry Moving South? col. 3-4 (from a Jan. 21, 1980 speech by W. D. Hagenstein) (available from Industrial Forestry Ass'n, 225 S. W. Broadway, Room 400, Portland, OR 97205).

[10] Forestry Facts, *supra* note 1, at side 1.

[11] Statement, *supra* note 8, at 3.

[12] *Id.*

[13] National Forest Management Act of 1976, 16 U.S.C. § 472(a) (1976); National Forest Timber Sale Procedures, 36 C.F.R. § 223 (July 1982).

[14] 36 C.F.R. § 223 (July 1982).

[15] A set-aside sale refers to the federal policy which recognizes the disadvantage to a Small Business Administration company (defined as a company employing less than 500) that owns little or none of its own timber land, but must bid against a large company that commits a relatively small proportion of its capital to contracts on public timber. When the total timber sold in a ranger district in a given year has been purchased primarily by the large companies in excess of their historic share, this will trigger the "set aside" of a percentage for bid by SBA companies only. The authors estimate the ratio of SBA to large companies in today's timber market to be two or three to one.

[16] To make a "cruise" a prospective purchaser drives through a forest to estimate the volume and quality of a timber stand by looking at test plots or strips in the stand. Random Lengths Publications, Inc., Terms Of The Trade 21 (W. Dean & D. Evans eds. 1978).

After the sale is awarded, the purchaser is required to make a deposit payment, by cash or performance bond, which represents a fixed percentage of the total *bid value* of the sale.[18] The bid value is independent of the appraisal value. The life of the contract is usually two to three years, but may extend up to five years on large volume sales. Contract payments are either made in cash or covered by payment bonds as timber is removed. The agency monitors logging and road building operations throughout the life of the contract.[19]

The obligation to build access roads to many timber parcels is an important aspect of federal contracts.[20] The Forest Service requires roads built to be adequate to log the balance of the timber adjacent and tributary to it but not included in the sale, and for future management of the land, as well as nontimber uses such as outdoor recreation activities. The roads are designated for inclusion in the permanent National Forest road system. These permanent roads are built to higher standards than would be necessary for the specific timber sale.[21] Therefore, when the timber purchaser builds a permanent road for the Forest Service, a credit is given for these construction costs.[22] The purchaser's position is theoretically similar to that of any contractor building a federal highway—the contractor provides a benefit to the government and is paid for it. Rather than receiving a cash payment, however, the timber purchaser receives a credit which can be applied against timber harvested.[23]

A problem with purchaser road credit is that in many instances the credit can never be taken, or can be taken only after significant delay. The result is that the purchaser sometimes "donates" part of the road to the government, and in other cases provides the equivalent of an interest subsidy to the government during a delay in using the road credit. In short, entering into a federal timber contract represents a substantial commitment of time, capital, equipment and labor for work other than harvesting timber. This effort will not always be compensated.

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[17] 36 C.F.R. § 223 (July 1980).

[18] *Id.*

[19] *Id.*

[20] See Standard Contract used by U.S. Dept. of Agriculture, Forest Service, Standard Provisions for Scaled Timber Sale 110-128 (9/73) (available from U.S.F.S., Region 6, P. O. Box 3623, Portland, OR 97208, or any Regional F.S. office).

[21] *Id.* at B.510—Transportation Facilities.

[22] *Id.* at B4.21—Purchaser Credit.

[23] *Id.* at B4.0—Payments.

If a contract cannot be performed for any reason (for example, the present market decline which makes harvesting uneconomical), the purchaser may default. The defaulter has two options: prompt settlement or delayed settlement.[24] In either event interest charges will be assessed; any down payment, advance deposits and surety bonds may be forfeited;[25] and, under contracts covering state lands, the defaulted purchaser is declared ineligible to bid on resale of the defaulted parcel and is liable for costs and losses of the agency if the defaulted timber is resold at a lower price.[26]

In 1981 and 1982, the prospect of massive defaults throughout the forest products industry in western states prompted an attempt by the industry and some government officials to modify existing contracts. Modification can benefit both the contract purchasers and the counties and schools whose budgets depend in part on revenues from timber harvests.[27] The goal of modification can be better understood by recalling the changes in the industry that occurred in the last decade.

B. Housing Forecasts Spurred Bidding

From 1970 to 1980, the industry operated at high rates of production.[28] The number of homes built per year rose steadily and peaked at over two million in 1978.[29] During the late 1970s, many private and public economists predicted an increased demand for lumber products during the 1980s. It was widely accepted that two million housing starts per year would be needed to accommodate requirements of the post-World War II baby boom.[30] Accordingly, economists expected that the housing market of the 1980s would require twenty million new homes.[31] Export demand for lumber was expected to increase; continued domestic economic expansion was also forecast.[32] Table 1 illustrates the dramatic product price increases experienced by the industry in the decade, which helped to make credible the forecasts of further increases.[33]

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[24] *Id.* at B9.3—Breach.

[25] *Id.* at B9.5—Settlement.

[26] See Standard Contract, available from State Forester, 2600 State St., Salem, OR 97310.

[27] Since 1908, there has been Congressional legislation directing that portions of money received during any fiscal year from sales of national forest timber shall be paid to the state from which it came, for the benefit of schools and roads within that state. A typical provision is:

> Such portions of the revested Oregon and California Railroad and reconveyed Coos Bay Wagon Road grant lands as are or may hereafter come under the jurisdiction of the Department of the Interior, which have heretofore or may hereafter be classified as timberlands, and power-site lands valuable for timber, *shall be managed*, except as provided in Section 1181(c) of this title for *permanent forest production, and the timber thereon shall be sold, cut, and removed in conformity with the principal* [sic] *of sustained yield for the purpose of providing a permanent source of timber supply, protecting watersheds, regulating stream flow, and contributing to the economic stability of local communities and industries, and providing recreational facilities* . . . .

43 U.S.C. § 1181(a) (1937) (emphasis added).

[28] *Through a Knothole*, RANDOM LENGTHS, LUMBER AND PLYWOOD MARKET REPORTING SERVICE, October 8, 1982, at 1 (a weekly report on North American forest products marketing published by Random Lengths Publications, Inc., P. O. Box 867, Eugene, OR 97401).

[29] *Id.*

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[30] During the 1970s Congress was developing a forestry incentives and management program. For example, the Forest and Rangeland Renewable Resources Planning Act was passed in 1974, and the National Forestry Management Act was passed in 1976, updating the management of the national forests. In his Environmental Message of May 23, 1977, President Carter stated that improvements in the productivity of nonindustrial private forest lands were to be a significant part of meeting the "greatest challenge to American Forestry"—to supply the timber needs of a growing economy. The following year, Congress enacted the Cooperative Forestry Assistance Act of 1978, 16 U.S.C. §§ 1600-1605 (Conservation Supp. 1982). All this legislation is codified at 16 U.S.C. §§ 1600-1614 (Conservation Supp. 1982). For a description of the goals and plans discussed, see S. Rep. No. 95-879, 95th Cong., 2d Sess. 3, *reprinted in* 1978 U.S. CODE CONG. & AD. NEWS 967-1001.

Under the Cooperative Assistance Act of 1978, federal technology was to be directed at improving management and increasing national productivity in cooperation with the states. The message was clear—measures need to be taken to preserve our forests, but also to ensure that we can meet the future demands of wood users. *Id.*

Among private sources issuing predictions of increased demand were Data Resources of Lexington, Mass., the largest single estimator for the forest industry; Dodge and Company which compiles housing predictions; the National Association of Home Builders and National Forest Products Association publications which relied on the U.S. Dept. of Agriculture forecasts of a doubling demand between 1977 and 2030.

The need to increase productivity, through harvesting mature timber in order to promote reforestation, is partly due to changes in land use patterns through urban growth and residential development, reservation for recreational uses, and abandonment of potentially productive areas. Between 1962 and 1970, the area of commercial timberland in the U.S. dropped by over eight million acres. Forest Survey reports covering years after 1970 indicate the drop is continuing. S. Rep. 95-879, 95th Cong., 2d Sess. 3, 1978, *reprinted in* U.S. CODE CONG. & AD. NEWS 1000.

The information compiling such reports, as well as testimony before the Senate Subcommittee during consideration of all the forestry legislation, and specifically the Cooperative Forestry Assistance Act of 1978, became "common knowledge" among all sectors of the forest products and homebuilding industries.

[31] Goals, *supra* note 6, at 3.

[32] *Id.*

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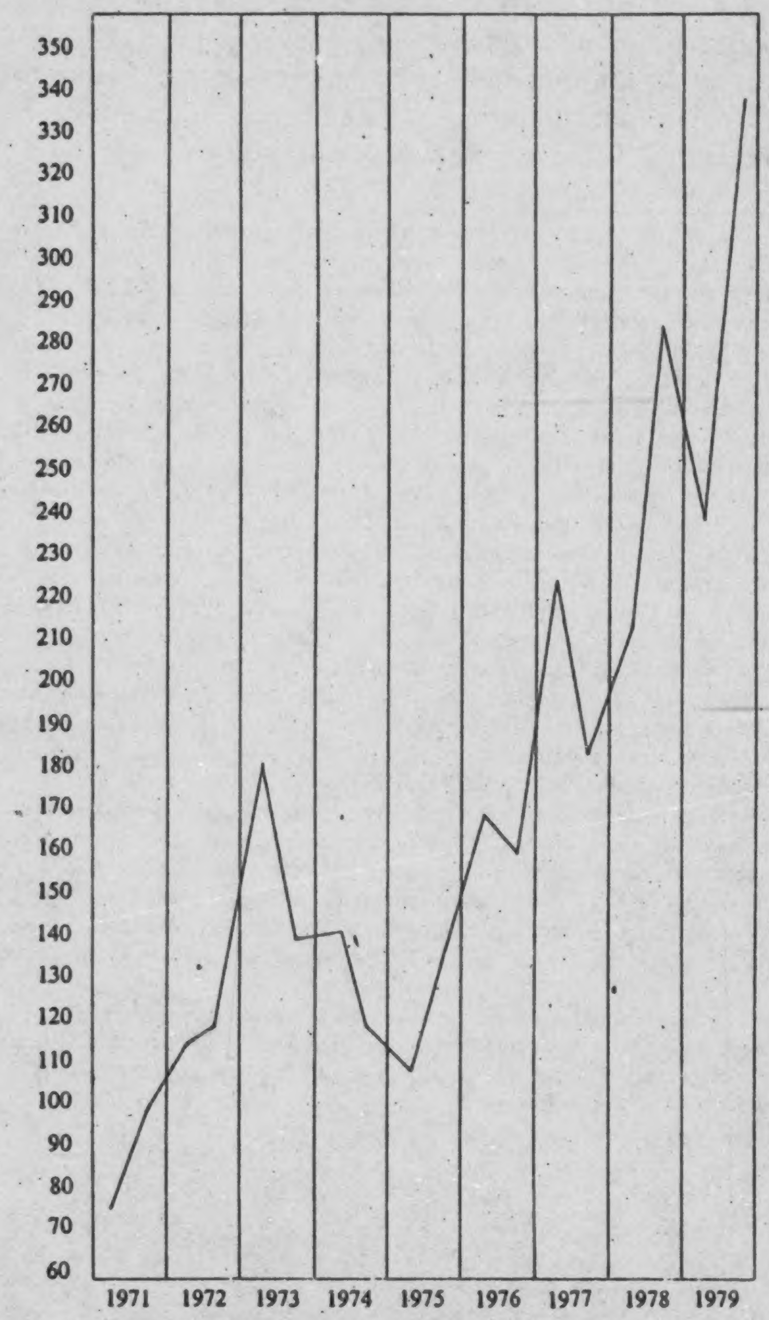
[33] Table 1.



Price, 2 × 4 Green Douglas Fir, FOB Mill 1971-1979

*The contracts for which industry seeks modification were bid at this level.

Compiled from Random Lengths Publications, Inc., 1975 Yearbook (D. Evans ed. 1976)

C. Government Policies Reduced Supply

1. Legislation enlarging wilderness areas

Beginning prior to the period of rising product prices and projected increasing demands, a series of environmental legislation effectively diminished the public timber supply.[34] In 1964 Congress passed the Wilderness Act,[35] which between 1964 and 1974 put 16.6 million acres of public timberland into the National Wilderness System.[36] In 1972, under the Wilderness Act, the Forest Service initiated the Roadless Area Review and Evaluation (RARE I) with an inventory of fifty-six million acres of national forest land for possible inclusion in the National Wilderness System.[37] In 1977, Assistant Secretary of Agriculture Rupert Culter initiated RARE II. RARE II recommended that an additional sixteen million acres of wilderness be set aside for further study, halting the sale of timber on this land until its status is determined.[38] These recommendations have yet to be acted on. Thirty-six million acres of the total seventy-two million considered under RARE I and RARE II were not recommended for wilderness or further study, but these lands are still unavailable for

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(available from Random Lengths Publications, Inc., P. O. Box 867, Eugene, OR 97401), and statistics of Willamina Lumber Co., Willamina, Oregon.

[34] Multiple Use-Sustained Yield Act of June 12, 1960, 16 U.S.C. § 528 (1960); Act of Aug. 17, 1974, 16 U.S.C. § 1609, (unifying all national forest lands reserved for any purpose and administered by the Forest Service into a "National Forest System"); Federal Land Policy and Management Act of 1976, and Act of Oct. 21, 1976, 43 U.S.C. §§ 1701-1716 (1976) (declaring the policy of Congress to "exercise its constitutional authority to withdraw or otherwise designate or dedicate Federal lands for specified purposes and that Congress delineate the extent to which the Executive may withdraw lands without legislative action") Title II Section 202(a) of the Management Act provides that the Secretary may, when appropriate, revise plans which provide for public lands regardless of whether previously classified, withdrawn, set aside, or *"otherwise designated for one or more uses,"* § 1711(a); Section 204(2) restricts withdrawals by the Secretary to the provisions of the Act.

[35] Wilderness Act of Sept. 1964, 16 U.S.C. §§ 1131-1136 (1964).

[36] Goals, *supra* note 6, at 10.

[37] INFORMATIONAL SUMMARY OF ROADLESS AREA REVIEW AND EVALUATION (RARE), PUBLISHED BY NAT'L ASSOC. OF MANUFACTURERS AND NAT'L FOREST PRODUCTS ASSOC. (March 1980). The Summary describes the Forest Service initiation in 1972 of the review process mandated by the 1964 Wilderness Act, 16 U.S.C. § 1131 (1964).

[38] Goals, *supra* note 6, at 10. "But the areas recommended for non-Wilderness uses are being challenged by environmentalists. Court challenges could tie up the non-Wilderness areas for years to come." *Id.* Q.E.D. On January 13, 1983, five environmental groups and California congressman Rep. Phillip Burton filed a suit against Secretary of the Interior James Watt to block the removal of wilderness protection from thousands of acres in 10 Western states, including an estimated 73,942 acres in Oregon. Portland Oregonian, Jan. 14, 1983, at 1, col. 5.

harvest.[39] Moreover, of the seventy-two million acres affected by the environmental legislation cited, a large majority are located in the western United States.[40]

In part because of the projected demand and in part because of these decreases in the federal timber supply, the prices bid for national forest timber contracts in late 1979 rose dramatically. For example, the price of Douglas fir timber from the west side of the Cascades rose more than tenfold in a decade, from an average of $41.90 per thousand board feet in 1970 to $432.20 in 1980.[41]

In addition to removing so many acres from potential harvest, the federal program for improving productivity of the forest lands has been neglected.[42] Unless harvested soon, much mature timber now in the national forests will be wasted.[43] Thus the current contract problems faced by the timber industry are creating an additional resource management problem. At best, the harvest of the timber under contract will continue to be delayed. From a productivity standpoint, the timber should be removed and replanted with fast-growing trees. Contract termination and re-offering of the timber at present market prices would meet this need and prevent waste.

2. *Fiscal Policies and Deficits Discouraged Housing*

While timber grew more scarce and costly, home purchase financing took a similar turn. Federal deficits from 1979 to 1982[44] put unprecedented pressure on financial markets and contributed to unprecedented interest rate levels. The prime rate reached twenty-one and one-half percent in December 1980. Inflation, which reached double digit levels, and budget deficits pushed housing costs to an all-time high.

The Federal Reserve Board, in October 1979, abandoned interest rate control procedures and adopted reserve requirement techniques which ignored interest rate fluctuations.[45] The Board intended to reduce inflation by reducing the rate of growth of the money supply and credit.[46] Record high mortgage interest rates, however, dropped housing starts to under one million, the lowest number of starts since World War II.[47] The Monetary Control Act of 1980[48] deregulated the banking industry. This removed the ceiling on interest rates that can be paid by savings and loan institutions,[49] thereby diminishing the largest source of mortgage funds available to borrowers at affordable rates.

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[39] Goals, *supra* note 6, at 10.

[40] Forest Serv., U.S. Dep't of Agriculture, Summary—Final Environmental Statement, Roadless Area Review and Evaluation, RARE II 11-55 (1979).

[41] *Statement, supra* note 8, at 4.

[42] Goals, *supra* note 6, at 10-11. The author asserts, "The Carter Administration's 1980 Assessment of future U.S. demand . . . in no way reflects the levels of productivity that are possible on the National Forests, or levels that will be needed to meet the country's future wood requirements . . . . It was a non-productivity program with built-in inflation for wood products." *Id.* at 11.

[43] *Id.* at 10.

[44] The deficit lept from $57.932 billion for the fiscal year ending October 31, 1981 to $110.66 billion for the fiscal year ending October 31, 1982. Projections for the fiscal year ending October 31, 1983 approach $200 billion. Wall Street Journal, Oct. 27, 1982, at 20, col. 3.

It is important to appreciate that interest rates are more determinative of housing demand than the price of lumber. Although lumber prices have some significance in setting the price of a house, they play virtually no role in determining whether that house will be built.[50]

The timber industry encountered a further setback with the initiation of the Reagan Administration's new economic policies. Housing, apparently, was no longer considered a national priority, as it had been for Republican and Democratic administrations alike for the preceding twenty years. This change in attitude culminated dramatically in June 1982 with the presidential veto of the Lugar Bill.[51] The legislation was introduced in response to appeals from homebuilders, loggers, manufacturers, and savings and loan institutions, and would have stimulated 100,000 to 150,000 housing starts.[52] The Office of Management and Budget recommended the veto, citing six reasons why it thought the bill would not provide the relief intended:

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[45] P. Volcker, Summary of Report to Congress on Monetary Policy Pursuant to the Full Employment and Balanced Growth Act of 1978, *contained in* FEDERAL RESERVE BD., MONETARY POLICY OBJECTIVES FOR 1982 4 (1982) (the author, Paul A. Volcker, is chairman of the Federal Reserve Board).

[46] *Id.*

[47] *Recovery "Too Little, Too Late" For 1982*, FOREST INDUSTRIES NEWSLETTER, Oct. 22, 1982, at 1.

[48] Depository Institutions Deregulation and Monetary Control Act of 1980, 12 U.S.C. § 226 (1980).

[49] Depository Institutions Deregulation and Monetary Control Act of 1980, 12 U.S.C. § 226 (1980).

[50] Statement, *supra* note 8, at 3.

[51] S. 2225, 97th Cong., 2d Sess. (1982).

[52] *Emergency Mortgage Interest Reduction Payments: Hearings on S. 2226 Before the Subcomm. on Housing and Urban Affairs of the Senate Comm. on Banking*, 97th Cong., 2d Sess. 18-20, 128-138 (Mar. 23, 1982).

(1) Government spending cannot create new jobs, only relocate existing employment;

(2) the bill would create pressure for similar bills in other industries and worsen budget deficits;

(3) adding to the budget deficit will aggravate interest rates;

(4) new federal programs to channel credit to one segment of the economy will choke off activity elsewhere;

(5) a reduced deficit is the best relief for housing; and

(6) the housing package is a budget buster with unsupported estimates of its effects.[53]

None of those reasons was applicable to the industry's plan for termination and extension of federal timber contracts.

Finally, the administration characterized industry's efforts to stimulate the housing market as a "bailout," requiring federal spending.[54] The industry plan, however, does *not* call for federal spending. It is instead a plan to decrease unemployment costs and increase tax revenues—the administration's own goals.[55]

D. Second Thoughts Plagued the Industry

In fall 1981 there was still nearly unanimous agreement among both large private timber owners and smaller purchasers dependent on public timber that a contract must be honored despite the fluctuations of the housing market. While prices declined, companies continued to comply with high-priced contracts, expecting the return of a healthy housing market. As a result of continued high interest rates through early 1982, however, many firms held high log inventory which they could not afford to cut, and faced possible default penalties on contracts bid in the 1970s which they could not now afford to operate.[56]

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[53] *Statement, supra* note 8, at 6.

[54] "The Case Against Bailouts," address by Murray L. Weidenbaum, Chairman, President's Council of Economic Advisers to the 1982 Annual Convention, Pennsylvania Bankers Association, Washington, D.C. (May 25, 1982). For another view of the "bailout" controversy, see R. Wolf, Congressional Research Service Report (May 25, 1982) (prepared for Sen. Dale Bumpers of Arkansas) which suggested that termination of the federal timber contracts and conversion of ineffective to effective road credits could result in losses of federal revenue of over $2 billion. The report recommended that no relief be granted without extensive further hearings and analysis of the fiscal condition of the industry, establishment of standards of need, and substantiation of the actual volume of timber affected by the contracts. (The report was written by Robert E. Wolf, Assistant Chief, Environment and National Resources Policy Division, The Library of Congress, Congressional Research Service, Washington, D.C.)

[55]
> The principal money item at issue is the value of the timber under contract. Industry's plan has been portrayed by some as if a portion of the original contract value is being handed back to industry. In fact, the portion of that value which exceeds the present value of the timber has already been lost because of the supervening market forces . . . . The timber under contract has a nominal value based on the contract prices bid up to several years ago, but that is far in excess of its real value. The difference in values has disappeared—it has not nor would not go to either the industry or the government.

Statement, supra note 8, at 6.

At the same time, Oregon's counties, schools and state government[57] suffered from reduced revenues historically generated by the state's timber industry.[58] Under federal formulas, both the BLM and the Forest Service return revenues to Oregon's counties for operating county governments and local schools, and building and maintaining roads and forest trails.[59] This situation is unique to the West, where most of the country's federal timber is located. Southern lumber mills traditionally obtain their wood supply from industrial lands and from small privately held tracts. Prices on this timber also increased during the 1970s, but price increases in the South were much lower than price increases in the West.[60] A further disadvantage to western mills is competition from Canada, which furnishes thirty-one percent of the present U.S. market.[61]

When it became apparent that the market down-turn could not be treated as a typical one year cycle, members of the forest products industry and representatives of local and state government began exploring whether termination of federal and state timber contracts would resolve the economic dilemma.[62]

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[56] *Id.* at 4.

[57] See *supra* note 27 for an explanation of O & C funds.

[58] During the first five months of 1982, only 12 million board feet of state-owned timber valued at $1.68 million was sold. This compares to 88 million board feet of state timber with a value of $17.1 million sold during a similar period in 1981. . . . Very preliminary estimates are that counties may only receive about half of the money they received last year.

Timber Harvest Down, Contracts Modified, THE FOREST LOG, July 1982, at 6 [hereinafter cited as *Timber Harvest*] (THE FOREST LOG is a monthly publication of the Oregon State Dept. of Forestry, 2600 State St., Salem, OR 97310).

[59] See *supra*, text accompanying note 24.

[60] Between 1970 and 1979, Douglas fir prices rose 842% in Oregon and Washington, compared to a 289% rise in average southern prices. *Goals, supra* note 6, at 10.

[61] *Softwood Lumber From Canada: Hearings Before the United States International Trade Commission* 2 (Nov. 12, 1982) (statement of Harlan M. Niebling, Executive Vice President, North American Wholesale Lumber Association, Inc.).

[62] "Governor Atiyeh's Timber Strategy Panel recommended that state timber sale contracts be modified to allow extensions and to adjust prices to today's depressed market. The purpose was to help encourage employment in the forest industry and to keep some revenues flowing to counties and the school fund." *Timber Harvest, supra* note 58, at 6.

II. OREGON'S RESPONSE—CONTRACT MODIFICATION

Governor Victor Atiyeh convened a special session of the legislature in January 1982 to grapple with a projected revenue shortfall of $240 million. Reduced activity in the forest products and housing industries was a primary cause of the budget shortfall.[63]

A. State Forestry Land

A major element of the Governor's economic program was Senate Bill 985, designed to combat the "extreme economic conditions" of the timber industry acknowledged in the bill.[64] Introduced on January 19, 1982, the legislation was considered in hearings, passed to readings and signed into law on February 1, 1982.[65] To prevent defaults on state timber contracts, the bill authorized the State Forester to modify the contract price. Because industry defaults would result in a complete loss of revenues, the state legislature concluded that a mere reduction in revenues was the better alternative.[66]

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[63] In his address to the opening session the Governor stated:

> Another significant part of my plan is designed to put people in the forest products industry back to work *now*. I am submitting legislation to give the State Forester authority to modify the terms and conditions of contracts for state-owned timber scheduled for harvest this year. I am also directing the State Forester to study other incentives that would not only return loggers to the woods but accelerate the return of workers to jobs in the lumber mills. The legislation I advocate would give him authority to take actions he deems necessary in this area. I will continue to pursue similar action on the part of the federal government.

Address by Gov. Atiyeh at Opening Session, Oregon Legislature, Spec. Sess. II, Jan. 18, 1982, Senate floor tape, cassette 1, side A, at ft. 38.

[64] S.B. 985, 61st Or. Legislative Assembly, Spec. Sess. II, § 9 (1982) states:

> A BILL FOR AN ACT Relating to public contracts; and declaring an emergency.
> Be It Enacted by the People of the State of Oregon:
>
> Section 1. The Legislative Assembly hereby finds that *extreme* economic conditions have adversely affected the harvesting and marketing of forest products in the State of Oregon impairing the State Forester's authority to manage, protect, utilize and conserve state forest lands placed under his jurisdiction and has severely damaged the state's forestry industry. *The purpose of this act is to continue the flow of revenues to the counties, to stimulate employment, to maintain Oregon's competitive position in the market place, and to maintain our forest management system.* Because of these *extreme* economic conditions and the importance of state forest lands and forest industry, the State Forester is hereby granted, notwithstanding the provisions of ORS 530.010 through 530.500, exclusive authority to modify existing timber sale contracts awarded through the competitive bidding process under ORS 530.059. Pursuant to this Act, the State Forester may, upon mutual agreement of the parties modify one or more of the following terms of existing contracts: Stumpage prices, method of payment or contract duration.
>
> Section 2. The State Forester shall by rule, establish, as soon as practical after the effective date of this Act, the terms and conditions under which contracts will be modified so as to insure effective management, protection, utilization and conservation of state forest lands.
>
> Section 3. This Act expires and stands repealed on July 1, 1983.

[65] *Minutes of Hearings on S.B. 985 Before the Senate Revenue Comm.* 3, 61st Or. Legislative Assembly, Spec. Sess. II (Jan. 20 and 21, 1982); *Minutes of Hearings on S.B. 985 Before the House Agriculture and Natural Resource Comm.* 3-6, 61st Or. Legislative Assembly, Spec.

According to the provisions of Senate Bill 985, the State Forester, by administrative rule, established the terms and conditions under which contracts on state-owned forest lands would be modified.[67] Eighty-eight timber contracts qualified for modification. On eighty-four of these contracts, requests were received to roll back prices.[68] There were sixty-seven requests for extensions.[69] By June of 1982 thirty-two contracts had been modified, and parties continue to negotiate modification on the remaining fifty-two.[70]

B. Common School Fund Land

Timber sales on 130,000 acres of forest, known as the Common School Fund Lands, were dealt with differently by the Oregon Land Board, composed of Governor Atiyeh, Secretary of State Paulus and State Treasurer Meyers. The Board allowed a three-year extension on contracts expiring in 1982 and 1983.[71]

Within one month, the state modifications were being felt.[72] On

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Sess. II (Jan. 25, 1982). Amendments were proposed in the House Committee to eliminate changes in price and to limit relief in Oregon to that granted by the Forest Service and BLM. The amendments were defeated.

[66] *Minutes of Hearings on S.B. 985 Before Senate Revenue Comm.* Exhibit 4, 61st Or. Legislative Assembly, Spec. Sess. II (Jan. 20, 1982) (prepared statement submitted by Pat Amedeo, Assistant to the Governor).

[67] OAR Division 28 (timber sales), OAR 629-28-010 to 629-28-035 (modifications of timber sale contracts) (1982).

[68] *Timber Harvest, supra* note 58, at 6.

[69] *Id.*

[70] *Id.*

[71] Oregon Forest Industries Council, Action Notice (July 14, 1982). (OFIC is a division of Associated Oregon Industries, P. O. Box 12519, Salem, OR 97309).

[72] *Logging Industry Back in Forests*, Portland Oregonian, Aug. 25, 1982, at —, col. —.

> The sounds of chain saws and log trucks have returned to state-owned forests as never before in 1982.
>
> Almost all timber operators shut down logging last winter in anticipation of legislation offering price rollbacks and contract extensions for the recession stricken wood products industry.
>
> Loggers slowly began to return to work on sales in the Elliott and Tillamook forests and other state timberlands after a special session of the Legislature authorized State Forester Mike Miller to grant the price cuts and extensions.
>
> The pace increased to a mediocre level early this summer. The Department of Forestry tallied 13 million board feet valued at $1.8 million harvested in June, followed by the same amount worth $1.7 million in July, which was 30 percent less than the volume logged in July, 1981.

August 17, 1982, testifying before a Senate subcommittee of the Energy and Natural Resource Committee, Governor Atiyeh referred to the increased activity of the timber industry and its impact on state unemployment: "Oregon rolled back prices of state timber and will have restored 1,450 jobs by the end of the year. . . . Some have argued that the state will lose money because we rolled back prices. That is utter nonsense. We had two choices: 100% of nothing or 56% of something."[73]

III. FEDERAL RESPONSE—ALTERNATIVE BILLS

A. *The McClure Extension Bill: A Short-term Solution*

A one-paragraph bill introduced by Senator James McClure of Idaho on August 5, 1982[74] provided solely for a five-year extension of timber sale contracts. Extensions without terminations serve only to postpone the problem. It is unlikely that extensions alone would enable operators to survive the current depressed state of the timber industry. Forcing purchasers to retain all the 1979 contracts ties up capital and reduces their ability to participate in the current market. According to industry calculations, in view of the drop in lumber prices beginning in mid-1980, it will require a combination of extensions and terminations to allow a typical operator to stay in operation.[75]

. . . .

"A total of 2,063 truck loads of logs was removed August 1-13, compared with 2,757 loads for all of July," [department information officer Jim] Fisher said. "We don't know if this rate will continue, but if it does it will be a 5,000-load month."

[73] Portland Oregonian, Aug. 17, 1982, at B1, col. 3-4.

[74] *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That the Secretary of Agriculture and the Secretary of the Interior are authorized to adjust the termination dates of any contracts for the purchase of timber from National Forest System lands and public lands that were entered into before January 1, 1982, without penalty or payment that might otherwise be required for such adjustments, at the written request of the purchaser, for a period equal to the original term of the contract but not to exceed 5 years.

[75] One hundred percent extensions and no terminations would put the break-even point off until well into the 1990s or perhaps even the turn of the century, depending on the inflation rate. These calculations are based on statistics compiled by the Industrial Forestry Association in its analysis of timber volume under contract in Region 6. Report of Michael D. Sullivan, Director of Public Affairs, Industrial Forestry Ass'n, July 1982 (available from Industrial Forestry Association, 225 S.W. Broadway, Portland, Oregon 97205).

B. *The Hatfield Bill: Too Vague At Present*

The Hatfield Bill[76] broadly authorizes the Secretaries of Agriculture and Interior to modify timber sales contracts bid prior to January 1, 1982. It lists as permissible modifications the termination, extension, or purchase price rollbacks on such contracts.

In its present very general form, the Hatfield Bill leaves virtually complete discretion to the agencies. In light of the delicate balance among various regions, communities and businesses that are vitally concerned with the economic consequences, Congress should specifically direct the actions of the agencies. In addition, the Hatfield Bill requires a showing of economic hardship. Section 2 of the bill authorizes the Secretaries to act only "upon a showing of economic hardship by the private contracting party." Without further guidance from the bill itself, the term "economic hardship" is sure to cause definitional problems and thus delay the intended effect of the bill. Beyond the problem of defining "economic hardship," it is impossible to determine from the bill whether the hardship must relate to the specific timber contract at issue, or whether it must relate to the purchasing operator as a whole. Obviously there would be no termination or extension of contracts that were economically viable. Therefore, it is difficult to imagine that the economic hardship must relate to the specific contract. A hardship requirement related to the company as a whole would be nearly impossible to implement because of the vastly different characteristics of the companies involved.

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[76] The Hatfield Bill was introduced by Senator Hatfield as S. 2805, and by Representative Weaver as H.R. 6913. It provides:

> A Bill: To provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber, and for other purposes.
>
> *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That the Congress finds that in order to avert widespread bankruptcies, sustain the flow of income from the Federal forest lands to the Federal treasury and to units of local government, and assist in restoration of employment, it is in the national interest to provide for the modification of certain contracts for the purchase of timber from Federal lands.
>
> Sec. 2. Upon a showing of economic hardship by the private contracting party, the Secretary of the Interior for public lands and the Secretary of Agriculture for national forest system lands are authorized to modify any timber sales contract bid prior to January 1, 1982. Such modifications may include—
>
> (1) termination of a portion of timber sales contracts for the purchase of timber bid prior to January 1, 1982, held by a private contracting party;
>
> (2) extension of the termination dates of such contracts, not to exceed five years beyond original termination dates of such contracts; and
>
> (3) modification of the purchase price of the timber sold, reflecting current market values, for such contracts that are not extended.
>
> Sec. 3. The Secretaries shall publish procedures for the modification of contracts pursuant to this Act in the Federal Register within 30 days after the date of enactment of this Act.
>
> Sec. 4. The authority granted pursuant to this Act shall expire one year after the date of enactment of this Act.

In the course of developing its own proposal for relief, the industry concluded that it is likely that no equitable measure of hardship can be developed in time to be effective.[77] Companies who were out-bid on the 1979 contracts would have no access to the timber under those contracts if companies in their vicinity were judged to have no economic hardship and thus could neither harvest nor terminate the contracts. A company's hardship status could also change if its nearby competitors qualified and were able to terminate sales, because the qualifying competitors would have lower raw material prices than the "healthier" company.

A second problem with the Hatfield Bill is that it fails to recognize the differing impacts of price rollbacks and termination. Price rollback and termination are aimed at the same goal, to make more timber available at prices that reflect the present market demand. Rollback and termination, however, have different impacts. While rollback lowers the prices of existing contracts, termination would achieve lower prices by reoffering the timber under bidding that would reflect the current market. Rolling back prices for the 1979 winners would grant them a benefit, while providing no opportunity for the losing bidders or nonparticipating companies to enter the market. Termination, on the other hand, would start the game over again for all companies under present market conditions. It favors neither past high bidding companies, nor companies that opted not to commit to those price levels.

The lame duck session of the 97th Congress did not see even the introduction of the proposed timber sale contract modification bills.[78] A substitute bill allowing the Secretaries of the Interior and Agriculture to enter into modification negotiations is anticipated in the 98th Congress.[79] Also, the Forest Service will undertake a new analysis of the potential costs of timber sale contract termination legislation, to be completed in March 1983.[80]

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[77] Company size was not a proper measure because some large companies as well as small companies are in poor condition. Volume of timber under contract is not relevant. Profit or loss for the most recent period is not an accurate indicator because it is unrelated to the immediate volume and price problems.

[78] *98th Congress Convenes on Jan. 3: Issues Pending*, FOREST INDUSTRIES NEWSLETTER, Dec. 30, 1982 at 1 (published by National Forest Products Association, 1619 Massachusetts Avenue, N.W., Washington, D.C. 20036).

[79] *Id.*

IV. INDUSTRY'S PROPOSAL

While termination primarily benefits the 1979 contract purchasers, and extensions alone would delay recovery, the best remedy lies in a combination of the two types of modification. Neither the McClure Bill nor the Hatfield Bill encompasses the major thrust of the industry's position. The following is an account of the negotiations within the industry which culminated in its proposal.[81]

A. Evolution

In developing his legislation, Senator Hatfield suggested a rollback of contract prices on the BLM managed O & C timber lands.[82] This echoed the Oregon solution and would have been the quickest route to increasing timber harvests so that county revenues would rebound. The notion, however, of a benefit only for companies operating on the O & C lands was strongly opposed by operators in the inland area of the West, who expressed their views to Senator James McClure of Idaho. The Senators formed an industry committee from Oregon and Idaho to develop a joint proposal for contract modification. Any significant program would have to affect more than only BLM contracts; relief was necessary for all segments of the industry.

The Oregon operators favored a program permitting unrestricted termination of contracts. Because Oregon contains a large proportion of high-priced timber, Idaho operators expressed concern that termination would give a market advantage to operators in the areas of high-priced timber. The Idaho operators also believed that a bigger problem during the industry downturn was having to continue building roads to be included in the permanent National Forest road system in an area of relatively low-priced timber. The elimination of the "ineffective purchaser road credit"[83] was both needed and justified in principle as a source for relief.

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[80] *Transportation Bill Signed By President: Forest Service Funding Signed*, FOREST INDUSTRIES NEWSLETTER Jan. 7, 1983, at 1.

[81] The account is based on the statement developed for testimony before the U.S. Senate Subcommittee of the Energy and natural Resources Committee by Paul Ehinger, Executive Vice-President of the Western Resource Alliance, in cooperation with: Industrial Forestry Association, Portland, Oregon; Northwest Independent Forest Manufacturers, Tacoma, Washington; Northwest Pine Association, Spokane, Washington; Northwest Timber Association, Eugene, Oregon; Western Forest Industries Association, Portland, Oregon; Western Resource Alliance, Eugene, Oregon; and Western Timber Association, San Francisco, California. See *infra* note 84.

[82] *See supra* note 27.

The industry committee report to Senators Hatfield and McClure recommended a three-point proposal for federal legislation. The program would entitle each operator to:

(1) *Terminate* federal timber sale contracts covering approximately forty percent of an operator's volume under contract;

(2) *Extend* for five additional years without financial penalty the expiration date of any contract not terminated; and

(3) *Receive full purchaser road credit* without regard to the price of timber in the contract under which the road was built, with such credit to be transferable and applicable anywhere in the National Forest system.[84]

The western draft proposal was circulated industry-wide. Some operators in the South voiced concern that a large volume of terminated timber would reenter the market to compete with regular Forest Service sales. This, they feared, would lead to abnormally low timber prices in the West and result in market dislocation at the expense of the South. The Forest Service stated, however, that terminated volume would be reoffered as part of the regular sale program, rather than immediately upon termination. Thus, the West did not believe that the South's fears would be realized.

The southern operators further proposed that any legislation should include an additional limitation on timber sales in the West, to insure against market dislocation. Accordingly, the West agreed not to object to legislative direction that included resales as part of the regular sale program. The South suggested a precise board-feet limitation on sales in Forest Service Region 6 (Oregon and Washington) during fiscal years 1983 and 1984. Ultimately, they could not agree on a numerical sales limitation. The point became moot in September 1982 when Senators Hatfield and McClure agreed to limit national timber sales in Oregon and Washington for the next two years in exchange for southern support for their contract termination bill.[85]

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[83] *See supra* notes 20-23 and accompanying text. Most sales with ineffective road credits—called deficit sales— typically are east of the summit of the Cascade Range and in the Rocky Mountains, areas where timber values are lower than in such areas as western Oregon and western Washington. Providing relief to purchasers in these areas from the subsidization of government roads would help them weather the present timber depression. Operators in this area will be helped less by contract termination than operators in high-priced areas, so this element of the industry proposal would significantly balance the benefits of legislation.

[84] Proposed Bill *to provide for the orderly termination or extension of certain contracts for the sale of federal timber and for other purposes*, presented to the Subcomm. on Forestry, Water Resources and Environment of the Senate Comm. on Agriculture, Nutrition and Forests, with prepared testimony of P. Ehinger, Executive Vice President, Western Resource Alliance, Aug. 12, 1982 [hereinafter cited as Proposed Bill].

In drafting its proposal, industry worked closely with the staff of Senator Hatfield, which in turn consulted the Forest Service, BLM and the legislative counsel of the Senate. Because the industry proposal encompasses all the considerations of the Oregon solution, as well as both pieces of proposed federal legislation, it is the most satisfactory to all interests.

B. Content of Proposal

1. Terminations

Purchasers would be entitled to terminate forty percent of their timber volume under contracts bid prior to January 1, 1982.[86]

Contracts not partially harvested must be terminated in full; a purchaser could not partially harvest an area and terminate the balance.[87]

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[85] *NW Senators Agree to Cap Timber Sales*, Portland Oregonian. Sept. 23, 1982, at B2, col. 1. This concession by Senators Hatfield, McClure of Idaho, and Jackson of Washington, appears to have overcome southern objections to the industry proposal.

[86] Proposed Bill, *supra* note 84, at § 2(a)(5). Because it is highly unlikely that any combination of terminated sales would total exactly 40% of volume under contract, purchasers could "round up" their terminated volume by terminating one additional sale so long as the total volume terminated including the additional sale did not exceed the 40% limitation by more than 10 million board feet. The one additional sale would have to be more recently bid than any of the other sales terminated by the purchaser.

Small businesses holding only one or two sales might find that they could not terminate a sale under the 40% limitation. Therefore, an alternate termination entitlement of either 15 million board feet or one contract is provided. *Id.* at § 2(a)(5)(D).

In 1982, the agencies began to offer a number of short-term sales in an effort to bring more realistically priced timber onto the market. These more recent sales would not be eligible for termination, although sales bid prior to April 1, 1982 would be used in calculating a purchaser's volume of termination entitlement. Contracts which otherwise would expire after enactment but before implementation of the program would be preserved for participation in the program. The condition of the industry makes rapid action highly important. Purchasers would have to make their decisions promptly as well, so they could not have the opportunity for extended speculation over whether a sale should be held or terminated.

[87] *Id.* at § 2(a)(2). Sales on which partial harvesting had taken place could be terminated only after work was completed on identifiable units or other logical portions of the sale as determined by the Secretary. The Secretary could refuse to terminate the contract of a partially cut sale if it were determined that remaining unharvested units were not representative of the entire contract area in terms of species and logging methods. *Id.*

Partially cut sales must be eligible for termination or else the termination program will be too limited in its practical application. At the same time, the Secretary must be given authority

In lieu of damages or penalties, a terminating purchaser would be required to pay a termination fee to cover the cost of reoffering the sale.[88]

The Secretary could require a terminating purchaser to complete any roads specified in a contract and to deck the right-of-way timber cut during road building.[89] Net purchaser road credits could be transferred to other contracts held by the purchaser, retained on account with the Secretary, or transferred to another party with all rights.[90]

Terminated contracts would be resold only as part of the normal Forest Service sale program. This is intended to prevent flooding of the timber market and possible regional dislocation.

Finally, terminating purchasers would be eligible to bid on the resale of their terminated contracts.[91]

2. *Extensions*

For the remaining sixty percent of timber volume bid before January 1, 1982, contracts could be extended up to five years without penalty. Contracts sold in 1982 would not be eligible.[92]

Contracts involving substantial amounts of timber subject to rapid deterioration could not be extended except with approval of the Secretary.[93] The Secretary could also require an extending pur-

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to reject termination where he finds a purchaser has taken the cream from a sale area and left only the skim milk.

[88] *Id.* at § 2(a)(1)(B). A charge of three dollars per thousand board feet is based on a determination made by the Forest Service that it will cost one dollar per thousand board feet to reoffer an untouched sale and six dollars per thousand to reoffer a partially cut sale. A termination charge formula is considered administratively much more efficient than trying to calculate the actual reoffering costs of each sale.

[89] *Id.* at § 2(a)(3). This requirement is designed to insure that the termination of a sale would not block access to another sale which is dependent on a road that was to be built in the terminated sale. The decked right-of-way timber could be sold by the agency to a willing buyer.

[90] *Id.* at § 2(b). A purchaser terminating a contract with the Department of the Interior who had completed roads under that contract would be credited, after setoff, for the value of the roads as set in the contract appraisal allowance. This would reimburse the purchaser for value provided to the Secretary without consideration. Normally, a bidder for an interior sale pays the cost of the road but takes that cost into account in making his bid. Thus, he is actually paid for the road through the value of the harvested timber.

[91] *Id.* at § 2(c).

[92] *Id.* at § 3(a). To permit extensions of 1982 contracts would defeat the purpose of the short-term sales offered that year.

[93] *Id.* at § 3(c). Permitting unqualified extension of such deteriorating timber would waste the resource. Permitting termination of such contracts, however, enables the agency to resell quickly to a willing harvester.

chaser to complete road construction required by the contract.[94]

Extending purchasers would have to remove twenty-five percent of the estimated timber volume by the end of the third operating season of the five-year extension period, or pay twenty-five percent of the contract price by the start of the fourth operating season of the extension period.[95]

3. Purchaser Road Credits

The industry proposal makes effective otherwise ineffective purchaser road credits which arise when the cost of the road construction exceeds the price of the timber purchased.[96] Presently, credits may be applied only within a single contract.

In the present situation of high contract price and low product price, purchasers cannot pay for the timber by credits within a given contract.[97] This forces purchasers to pay in cash the cost of the timber exceeding earned road credits. Transferability of previously ineffective road credits would eliminate these cash payments. To make ineffective road credits fully effective, the industry proposal permits purchasers to use road credits to pay for timber not only from the sale where the road was built, but for any other sale in the National Forest system. Thus, if a purchaser is operating another sale, he can use his credits as they are earned. Even if he has no other sale presently operating, he can still use his credits on future sales. This converts the outright subsidy to the Forest Service resulting from ineffective road credits into at most a short-term interest-free loan to the government.

C. Impact

The industry's proposal would allow the average western operator to break even by 1989.[98] This assumes that operators would terminate their highest-priced timber contracts and cut most of the extended volume in the final two years of the extension period. It also assumes a seven percent inflation rate during the period, and a ten percent profit on all new purchases of timber applied against losses incurred on the extended contracts. If the inflation rate were ten percent, however, the break-even point would be reached in 1987.[99]

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[94] *Id.* at § 3(a).

[95] *Id.* at § 3(b). This insures that some work will progress during the course of the extension, and that operators would not leave sales untouched until the end, then seek further extensions or terminations. This provision reflects a particular concern of the industry in the South.

[96] See discussion *supra* p. 178.

[97] Only the value of the timber exceeding the statutory base rate—that portion of any bid which must be paid in cash—can be paid in credits. The ineffective purchaser road credits which become effective through transfer to another contract could not, of course, be used to pay any of the statutory base rate. Timber Sale Contract, Division A, Standard Provisions for Scaled Timber Sale, pp. 1-109 (1973) (Standard contract used by U.S. Dept. of Agriculture, Forest Service, available from U.S.F.S., Region 6, P.O. Box 3623, Portland, OR 97208, or any Regional F.S. office).

Contract modification, whether it be termination, extension or price rollback, can not actually create additional markets for lumber and plywood. Modification would, however, enable operators, particularly the small, community-based firms, to retain their share of the present depressed markets, rather than face business failure. Moreover, contract modification will enable all companies to promptly increase their production as markets revive.

CONCLUSION

Despite recent improvements in the economy, recovery of the home-building and lumber markets will not occur in time to justify harvesting the 16.5 billion board feet of federal timber under 1979 contracts. Consequently, economic reality threatens massive defaults on federal timber contracts by all except a few of the largest timber companies. Admittedly, 1979 timber prices were bid to unprecedented levels by the industry itself. This phenomenon, however, followed private and government forecasts for the 1980s that demand for public timber would rise while new environmental and wilderness laws pointed to a diminishing supply of public timber. Moreover, Reagan's inaugural changes in fiscal policy and regulation were not expected to depress the lumber market.

The inability of timber purchasers to perform the 1979 contracts has effects reaching beyond the lumber industry. The lumber industry is inextricably integrated with regional employment, tax receipts, and operating revenues for schools and counties—in short, the financial security of many western communities. Modification of state timber contracts by the Oregon Legislature has already boosted the State's economy. Relief should likewise be afforded federal timber contractors to revitalize the broader regional economy.

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[98] These calculations are based on statistics compiled by the Industrial Forestry Association in its analysis of timber volume under contract in Region 6. Report of Michael D. Sullivan, Director of Public Affairs, July 1982. (Available from Industrial Forestry Association, 225 S.W. Broadway, Portland, OR 97205).

[99] *Id.*

The best legislative solution is a mixture of remedies. Balanced termination and extension of federal contracts, together with full application of road credits, is a fair and sensible means of preventing massive defaults. The industry's proposal would enable timber companies to break even within the decade, and allow western communities to receive a continuous flow of revenues. A political solution will continue to be sought at the federal level, rather than judicial remedies. A judicial remedy, such as rescission on the ground of commercial impracticability,[100] may be sought by members of the industry if a political solution becomes impossible. Congress now carries the burden of effecting timely modifications of the federal contracts so that the primary industry of the West can survive and continue to support the well-being of our citizens.

AUTHORS' UPDATE:

In late March, just prior to publication, Senator Hatfield introduced S. 916, which is substantially similar to S. 2805, the contract modification bill discussed in this Article. Hearings on the bill are scheduled in April.

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[100] See Comment, *Relief From Burdensome Long-term Contracts: Commercial Impracticability, Frustration of Purpose, Mutual Mistake of Fact, and Equitable Adjustment*, 47 Mo. L. Rev. 79 (1982) for discussion of Aluminum Co. of Am. v. Essex Group, Inc., 499 F. Supp. 53, 79 (W.D. Pa. 1980) in which court granted relief from a burdensome long-term contract and fashioned a remedy for price adjustment.

Senator HATFIELD. Thank you, Mr. Davis.
Mr. Jones.

STATEMENT OF GARY JONES, VICE PRESIDENT, SUMMIT TIMBER CO., DARRINGTON, WASH.

Mr. JONES. My name is Gary Jones. I am vice president of Summit Timber Co. in Darrington, Wash. Darrington is a small community located in the Cascade Mountains about 80 miles north of Seattle. It is a family-held corporation, and we have been in business for about 40 years. I represent the second generation of that timber company.

Darrington is a community of about 1,000 people. Of that 1,000 people, the work force is about 450 jobs. Those 450 jobs are about two-thirds of all the jobs in the Darrington area.

The reason we are here today is to testify in favor of this bill; 95 percent of the timber that we use in our sawmill operations comes out of national forest land. We bid those contracts at a time when estimates were high on housing and speculation was that the market was going to continue to improve, but at that same time we proceeded to build a new sawmill complex costing us $18 million in the Darrington area, just as the market collapsed. We were able to continue to operate on the log supply we had in the yard at that time of high-priced logs. The markets dropped 50 percent at that time causing great losses to our company.

Our losses over the last couple of years have totaled $10 million. We have about 30 percent of our contracts that are above market value today. Our concern is that if we are forced to operate those contracts we will exceed our net worth to the company. The losses will exceed the net worth of our company and that we cannot sustain those losses because of the past couple of years.

We acknowledge that the markets have improved, and we hope that they will continue to improve. I would like to comment a little bit about the so-called speculative bidding that has happened today, and I appreciate John's remarks concerning that.

Definitely the discount bidding has helped. We have had the opportunity to bid against some speculation and harvest the timber this year and put it in the mill using the discount principle, and it has been of benefit to us.

The other problems are that everyone is in this situation. Everybody needs low-priced timber to operate on today, and sometimes in timber sales people will go to their absolute maximum because they need the job, because they need the logs, or because they need the sawmill operations. I believe that that is going to be related to a supply problem because of the lack of timber being sold in some areas.

The other problems in the Mount Baker National Forest relate to blow-down timber. We had a big blow-down just before the market collapsed, and they offered the timber sales at that time and sold them on the high market. These timber sales today are inoperable. That timber is laying on the ground, in many cases deteriorating and will not be harvested unless something happens within the next 6 months to 1 year. That timber will go to waste. Those companies that are involved in those timber contracts will be forced to default. In fact, that has happened in the Olympic National Forest. We hope that something will be done.

Our employees at our sawmill have taken a 25-percent wage cut. We have been able to raise that to a 15-percent cut. We have two employees that have already declared personal bankruptcy, and we are faced with the same situation. The banking industry in the State of Washington is trying to get out of the forest products industry. It is hard to borrow money today. It is hard to find a place that will listen to a forest products company.

Our hope is that this legislation will pass and that we will receive some relief and be able to continue to operate as we have in the past.

Thank you.

[The prepared statement of Mr. Jones follows:]

BEFORE THE SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER
OF THE COMMITTEE ON ENERGY AND NATURAL RESOURCES
TESTIMONY OF
GARY E. JONES, VICE PRESIDENT
SUMMIT TIMBER CO., DARRINGTON, WASHINGTON
APRIL 22, 1983

Mr. Chairman, my name is Gary Jones. I am vice president of Summit Timber Co., in Darrington, Washington. Darrington is a small community with about 1,000 people nestled in the Cascade Mountains, about 80 miles northeast of Seattle, Washington. Summit Timber Co. is a family-held corporation. We have been in business for roughly 40 years.

I am here today representing not only Summit Timber Co. but also the town of Darrington and our employees. Summit is not a large company, but we are the major employer in the Darrington area. 450 people work in our mills and on our logging operations. These 450 jobs represent 2/3 of all the jobs in Darrington.

Today those 450 jobs are in jeopardy because Summit Timber Co. is in jeopardy. The reason is that we are under contract to purchase federal timber at prices that are so high that we would be driven out of business. We are fighting for survival.

Ninety-five percent of the timber that is sawed in our mills comes from national forest land. The National Forest Service timber we are under contract to purchase was bid at a time when people expected the price of timber to rise rapidly due to inflation and projected increasing demand. In addition, another reason for the high prices was uncertainty about how much timber might be taken off the market by the U.S. government and put into wilderness areas.

Bids were based on an expected inflation rate of 8 to 12%. Competition was stiff, and in order to even have a chance at getting a timber sale, we had to go along with the projections. We had no choice if we were to have enough timber to run our mills.

Then came a new administration and a change in policies. Inflation is being eliminated. There is less uncertainty regarding wilderness areas. We agree with what the President is doing; our problem is that we cannot survive with the contracts that were bid under the old policies.

Some may say we took a gamble and lost on our timber sales. My feeling is that we were forced to bid under the system that was prevalent at that time. Now we need a chance to start again, to have the opportunity to buy new contracts under the new monetary and fiscal policies. If we cannot get our from under the old contracts, we and many others will face default and the bankruptcy court.

We are coming to Congress as a last resort. Summit Timber Co. already has lost $10 million over the last couple of years. We have poured all of our available cash into the company and have borrowed money as well. We have done all we can do. Under the old contracts, we face the further loss of $12 million on today's market. Summit Timber Co. cannot sustain that loss.

We acknowledge that markets have improved in the past 6 months. But under the old contracts we are still an average of

$150.00 per thousand board feet above the break-even point for stumpage. Unless the country quickly returns to the inflationary spiral of the late 1970's, which is highly unlikely, we see no way these contracts will be operable.

Our 450 union and salaried employees have done their part. They took a 25-percent wage cut, which has been adjusted because of an improved market to 15%. We now are running our two mills on a two-shift basis. We are keeping the employees working as much as possible. We have done the best we can for as long as possible. If we are forced to harvest the old forest service contracts, we have no choice except to close our doors. If Summit Timber Co. closes, the town of Darrington will have a rate of unemployment of 50%. We ask you not to let that happen.

Senator **Hatfield**. Thank you very much, Mr. Jones. I invite now Mr. George Cheek, Mr. George Schmidbauer, Mr. Duane Crites, Mr. Paul Heyrend, Mr. Harold Smith, Mr. Forrest Dobson. Mr. Cheek, do you wish to lead off?

STATEMENT OF GEORGE C. CHEEK, SENIOR VICE PRESIDENT, PUBLIC AFFAIRS, POTLATCH CORP., SAN FRANCISCO, CALIF.

Mr. **Cheek**. Thank you, Senator. I am George Cheek, the senior vice president of Potlatch Corp. Our headquarters are in San Francisco where we manufacture a broad range of forest products in Idaho, Minnesota, and Arkansas. We also buy substantial quantities of timber from other ownerships, including the Federal Government.

More than a year ago we agreed to take part in an effort to solve the problems caused by high Federal timber contract prices and by an inventory buildup caused by poor markets. About a year ago that effort ended when the termination proposal that is now before you was developed. We were told then that our views were not wanted.

However, as we did then, we still believe that a reasonable solution can be found, and we would like to help in its development. We do not believe this proposal is a reasonable one.

Three premises have to be accepted if this level of termination is justifiable. The first is that a high percentage of defaults will occur.

Second is that the defaults will cause a wave of bankruptcy, and third, that passage of this proposal will not affect the competitive balance in the industry. We believe all three are highly questionable.

We are told that the percentage of defaults could go as high as 80 percent, that the most the Government can expect to recover is 20 percent of a sum that was estimated last year at $2.6 billion; 32 percent of the liability, not 20 percent, exists among the nine largest contract holders. All of these are public companies except Roseburg Lumber Co. Two of the others, Boise Cascade and Willamette, have specifically ruled out default in their 1982 annual report.

The others include International Paper Co., Champion International Co., Louisiana Pacific Corp., and some others with net worth measured in billions. We doubt whether any of these companies will default.

Now if this 32 percent is not defaulted, what of the other 68 percent? In the list of injured contract holders supplied by the supporters of termination last year were many companies who oppose this bill, including my own. We do not intend to default, either. It is impossible to believe that more than half of this remainder, 39 percent, could be defaulted, making the minimum Government recovery 60 percent, not 20.

Now in regard to the premise that a wave of bankruptcies will occur and this will create widespread unemployment and economic hardship, the picture is no different. We have seen no proof that bankruptcy will occur. If some companies can offer this proof, this argument for Federal relief probably should be heard, just as the arguments were heard for Lockheed and Chrysler, but just as Lockheed and Chrysler were required to qualify for Federal relief, these companies should be required to meet some qualifications, but even bankruptcy does not make a mill vanish. Mills that are profitable will continue to operate and provide employment even if their ownerships change.

One of the arguments for termination is that most of these contracts cannot be operated, and this is a quote, "* * * even under any totally euphoric projection of future markets." If that is true, the decision to make those bids was more than foolish and no amount of Government help can guarantee future decisions will be any better. In cases of that kind, employees might well benefit from a management change.

The third premise that the competitive balance will not be affected by termination will be addressed by other witnesses, but we have already seen the results of milder forms of relief in the West. Last year the States of Washington, Oregon, and California provided timber price rollbacks and contract termination, and the Forest Service offered short-term sales that have been talked about here today, all in an effort to improve the employment in the coastal region, and it worked.

In September, my company was forced to curtail employment in our Idaho plywood production because coastal mills with this relief could offer plywood at $17 below our cost. Now these relief measures have allowed coastal mills to produce at a higher rate than inland mills on a regular basis. Figures provided by Western Wood Products Association show that coast mills were producing at more than 100 percent of normal during the week ended April 2 compared to 87 percent for inland mills. For the whole year to that point coastal mills enjoyed a production rate of 97.3 percent of what is called normal compared to 84.4 percent for inland mills which includes my company's mills in Idaho.

We believe passage of S. 916 would simply institutionalize that imbalance, further eroding our ability to serve our markets and employ our workers. We continue to believe a less one-sided solution should be developed.

Thank you.

[The prepared statement of Mr. Cheek follows:]

Testimony of: George C. Cheek
Senior Vice President, Public Affairs
Potlatch Corporation

Before the
Subcommittee on Public Lands and Reserved Water
Committee on Energy and Natural Resources

United States Senate

April 22, 1983

I am George Cheek, a senior vice president of Potlatch Corporation. We are headquartered in San Francisco and manufacture a broad range of forest products in Idaho, Minnesota and Arkansas. We buy substantial quantities of timber from other ownerships, including the federal government.

More than a year ago, we agreed to take part in an effort to solve the problems caused by high federal timber contract prices and by an inventory buildup caused by poor markets. About a year ago that effort ended when the termination proposal now before you was developed. We were told our views were not wanted.

As we did then, we still believe a reasonable solution can be found, and we would like to help in its development. We do not believe this proposal is reasonable.

Let me just mention three premises that have to be accepted if this level of termination is justifiable. The first is that a high percentage of defaults will occur. Second is that the defaults will cause a wave of bankruptcies. And third, that passage of this proposal will not affect the competitive balance in the industry. We believe all three are highly questionable.

We are told that the percentage of defaults could go as high as eighty percent -- that the most the government can expect to recover is 20 percent of a sum that was estimated last year at $2.6 billion. Thirty-two percent of the liability -- not 20 percent -- exists among the nine largest contract holders. All of these are public companies except Roseburg lumber Co. Two of the others, Boise Cascade and Willamette, have specifically ruled out default in their 1982 annual reports. The others include International Paper Co., Champion International Corp., Louisiana Pacific Corporation and others with net worth measured in billions. We doubt whether any of these will default.

If this 32 percent is not defaulted, what of the other 68 percent? In the list of injured contract holders supplied by the supporters of termination last year were many companies who oppose this bill -- including my own. We do not intend to default, either. It is impossible to believe more than half of this remainder -- 39 percent -- could be defaulted, making the minimum government recovery 60 percent, not twenty.

In regard to the premise that a wave of bankruptcies will occur, and that this will create widespread unemployment and economic hardship, the picture is no different.

We have seen no proof that bankruptcies will occur. If some companies can offer this proof, their arguments for federal relief probably should be heard -- just as the arguments were heard for Lockheed and Chrysler. But, just as Lockheed and Chrysler were required to qualify for federal relief, these companies should be required to meet some qualifications.

The Wall Street Journal quoted one company executive as saying that 25 percent of the west's productive capacity would be lost if this bill does not pass. Even bankruptcy does not make a mill vanish; mills that are profitable will continue to operate and provide employment, even if their ownership should change.

One of the arguments for termination is that most of these contracts cannot be operated -- and this is a quote -- "even under any totally euphoric projection of future markets." If that is true, the decision to make those bids was more than foolish and no amount of government help can guarantee future decisions will be any better. In cases of that kind, employees might well benefit from a management change.

The third premise -- that the competitive balance will not be affected by termination -- will be addressed by other witnesses, but we have already seen the results of milder forms of relief in the west.

Last year the states of Washington, Oregon and California provided timber price rollbacks and contract termination, and the Forest Service offered short-term sales, all in an effort to improve employment in the coastal region. It worked. In September, my company was forced to curtail employment in plywood production because coastal mills, with this relief, could offer plywood at $17 below our cost.

These relief measures have allowed coastal mills to produce at a higher rate than inland mills on a regular basis. Figures provided by Western Wood Products Association show that coast mills were producing at more than 100 percent of normal during the week ended April 2, compared to 87 percent for Inland mills. For the whole year, to that point, coastal mills enjoyed a production rate of 97.3 percent, compared to 84.4 percent for inland mills, which includes our mills in Idaho.

We believe passage of S.916 would simply institutionalize this imbalance, further eroding our ability to serve our markets and employ our workers. We continue to believe a less one-sided solution should be developed.

Senator **Hatfield**. Mr. Cheek, on the first page you make an interesting statement in which you talk about a year ago you agreed to take part in an effort to solve the problem caused by high timber contract prices. "About a year ago that effort ended when the termination proposal now before you was developed. We were told our views were not wanted."

Who told you that?

Mr. **Cheek**. The group that at that time was meeting with you I think on the coast or here, Senator; we were told that they didn't need or we did not need to contribute any further to the discussion.

Senator **Hatfield**. Who told you that?

Mr. **Cheek**. Other people in the industry.

Senator **Hatfield**. Some people in the industry?

Mr. **Cheek**. Yes.

Senator **Hatfield**. It wasn't the committee or any Members of the Congress on this committee?

Mr. **Cheek**. No, sir.

Senator **Hatfield**. Mr. Cheek, I have a copy of the hearing here dated August 16 and 17, page 336, a quote from statements you made to the committee. There was a review of the procedures that had occurred up to that point, and this is the statement of Mr. Cheek.

> We did participate very early, and I believe that the last figure that I heard that anyone in my company had agreed to was something like 25 percent termination of sales contract for prior to April 1, 1981, and then the next thing that was presented was 60 percent of sales before October 1, and then suddenly 60 percent by January 1, and somebody said they wanted more and we simply withdrew from the discussions at that point.

Mr. **Cheek**. Yes.

Senator **Hatfield**. Is that a correct statement?

Mr. **Cheek**. Yes.

Senator **Hatfield**. Thank you.

Mr. Schmidbauer.

STATEMENT OF GEORGE SCHMIDBAUER, PRESIDENT AND GENERAL MANAGER, SCHMIDBAUER LUMBER CO., EUREKA, CALIF.

Mr. **Schmidbauer**. Mr. Chairman, I am George Schmidbauer, president of the Schmidbauer Lumber Co., incorporated in Eureka.

My family presently owns two sawmills in California that produce about 60 million board feet of redwood, fir, and pine lumber annually and employ 150 people.

I also represent the following: Susanville Lumber Co., 36 million board feet annual capacity, 65 employees; Snider Lumber Co., 2 mills, 70 million board feet annual capacity, 280 employees; Michigan-California Lumber Co., 50 million board feet, 135 employees; Crane Mills, 24 million board feet, 90 employees; and Paul Bunyon Lumber Co., 45 million board feet, 100 employees.

We are all dependent in various degrees on the purchase of Government timber to operate efficiently at two shifts. However, during the late seventies, half of our mills made the decision to reduce production to one shift because we felt Federal timber sales were going too high to purchase. Some of us were also caught short without a backlog of cheap Federal timber purchased earlier in the decade and felt compelled to buy high-priced open market logs and suffer losses much sooner than the mills that had a large number of Federal timber sales purchased with skewed bids to operate.

Now that these companies must cut their timber sales, they don't want to and are asking relief by S. 916. We strongly feel that to ever have an orderly Federal timber sale program, companies that can without fear of bankruptcy should fulfill their contracts.

The Forest Service has already implemented several mitigating measures to help companies through this difficult period by giving time extensions, offering short-term timber sales, and discounting long-term timber sales to average down stumpage costs and keep people working. This is really the last thing these companies want because most of them own vast amounts of fee timber whose value they would not like to see reduced by Government selling cheap timber. Somehow they must rid themselves of the extremely high Federal timber purchased and still maintain high timber prices, and S. 916 will do this by allowing them to bid back all sales returned to the Forest Service. Some Federal timber sales sold during the first quarter of 1983 are already being bid up to five times the appraised price which I think proves the point.

We who oppose S. 916 sat at the bid table and refused to buy at prices we thought too high and were called noncompetitive by the speculators who bid higher and higher on Federal timber sales. Now we would like to see how competitive they are. It might be noted that pine is selling for 95 percent of its alltime high of April 1979 and Douglas-fir was within 75 percent of its high which shows a dramatic increase in lumber prices. This indicates to me that the companies were greedy, not competitive. Otherwise they wouldn't want to turn the timber sales back.

During the past 20 years there has always been much discussion on why people bid so much for Federal timber sales, and the saying developed, true or not, that no one had ever lost money on a Federal timber sale. Time and the Forest Service would usually take care of the overbidding problem. This is why we have the problem in the magnitude it is today. You can't lose money on a Federal timber sale. S. 916 will take care of it.

Thank you.

[The prepared statement of Mr. Schmidbauer follows:]

Testimony of: George Schmidbauer
President and General Manager
Schmidbauer Lumber, Inc., Eureka, Calif. 95501

Before the
Subcommittee on Public Lands and Resernved Water Committee
on Energy and Natural Resources

United States Senate
April 22, 1983

I am George Schmidbauer, president of Schmidbauer Lumber, Inc. from Eureka, Calif. My family presently owns two sawmills in Calif. that produce about 60 million board feet of redwood, fir and pine lumber annually and employ 150 people. I also represent the following:

Susanville Lumber Co., Susanville, Calif. 36 million board feet annual capacity, 65 employees.
Snider Lumber Products Co., Turlock, Calif. (2 Mills) 70 million board foot annual capacity, 280 employees.
Michigan-California Lumber Co., Camino, Calif. 50 million board foot capacity, 135 employees.
Crane Mills, Corning, Calif. 24 million foot annual capacity, 90 employees.
Paul Bunyan Lumber., Anderson, Calif. 45 million board foot annual capacity, 100 employees.

We are all dependent in vaious degrees on purchase of government timber to operate efficiently at two shifts. However, during the late 1970s half of our mills made the decision to reduce production to one shift because we felt federal timber sales were going too high to purchase. Some of us were also caught without a backlog of cheap federal timber purchased earlier in the decade and felt compelled to buy high priced open market logs and suffer losses much sooner than the mills that had a large number of federal timber sales purchased with skewed bids to operate. Now that these companies must cut the timber sales they don't want they are asking relief by S 916. We strongly feel that to ever have an orderly federal timber sale program, companies that can, without fear of bankruptcy, should fulfill their contracts.

The forest service has already implemented several mitigating measures to help companies through this difficult period by giving time extensions, offering short term sales and discounting long term sales to help average down their stumpage costs and keep people working. This is really the last thing these companies want, because most of them own vast amounts of fee timber whose value they would not like reduced by the government selling cheap timber. Somehow they must rid themselves of the extremely high federal timber purchased and still maintain high timber prices and S 916 will do this for them by allowing them to bid back all sales returned to the forest service. Some federal timber sales sold during first quarter 1983 are already being bid up to 5 times the appraised price, which I think proves this point.

We who oppose S 916 sat at the bid table and refused to buy at prices we thought too high and were called non-competitive by speculators who bid higher and higher on federal timber sales; now we would like to see how competitive they are. It might be noted that pine is selling at 95% of its all time high which was in April of 1979, and Douglas Fir is within 75% of its high which shows a dramatic increase in lumber prices. This indicates to me that the companies were greedy- not competitive, otherwise they wouldn't want to turn back timber sales.

During the past 20 years there was always much discussion on why people bid so much for federal timber and the saying developed, true or not, that no one had ever lost money on a federal timber sale. Time and the Forest Service would usually take care of the over-bidding problem and this is why we have the problem in the magnitude it is today. You can't loose money on a federal timber sale, S 916 will take care of it.

Our competitor Roseburg Lumber Co., who will gain most if S 916 passes has just purchased a $15,000,000.00 hardboard plant at Rocklin, Calif. and a forest products complex from International Paper at Weed, Calif. Their bidding record in our area during 1983:

2/7/83	5.5 x appraised value	Successful bidder
3/10/83	5.3 x appraised value	Second bidder
3/17/83	5.2 x appraised value	Successful bidder
3/29/83	5.5 x appraised value	Second bidder

We would take no pleasure in seeing companies with high priced Government Timber Sales being forced to operate them with disastrous results for communities. We doubt that this will happen - especially with the U. S. economy improving like it is. We would support a program that would give distressed operators time to work their high priced timber sales out by blending them in with other less expensive timber. We would agree to reducing penalties and extending sale termination dates - but we feel very strongly that eventually the companies who imprudently purchased these high priced timber sales should "pay the fiddler" for poor business judgement.

The CHAIRMAN [presiding]. Thank you very much.
Mr. Crites.

STATEMENT OF DUANE CRITES, TIMBER MANAGER, TIMBER PRODUCTS CO., MEDFORD, OREG.

Mr. CRITES. Thank you. My name is Duane Crites, timber manager for Timber Products Co. We are headquartered in Medford, Oreg., with plywood manufacturing plants in Medford, White City, and Grants Pass, a particle-board plant in Medford, Oreg., and a green-veneer plant located in Eureka, Calif.

Timber Products has been in continuous operation in the manufacturing of wood products for 55 years under three different ownerships. We have a land base of approximately 57,000 acres located in Jackson County, Oreg. This land for the most part is reforested and is not at this time capable of sustaining a commercial timbering operation.

The CHAIRMAN. Could you pull the microphone a little more directly in front of you?

Mr. CRITIES. In the last year we have committed ourselves to a modernization and updating of our Medford facility at a cost of half a million dollars. The primary goal of this updating is to meet the future environmental standards for clean air, so you can see we are in this business for the long run.

For some 30 years we have been a regular purchasers of public timber in southern Oregon and northern California. Beginning in the late seventies we found ourselves further on the outside looking in. As the bidding for this timber reached levels far beyond our capabilities, a war of attrition thus began with two separate game plans being used by the participants.

Plan 1—bid and tie up all public timber at any cost until competing mills were forced to close their doors due to lack of raw materials; plan 2—buy only the timber that could be obtained at a price that when processed a reasonable man could expect it to yield a small profit or at least break even, waiting and hoping that the wild speculation at the bidding table would subside and a more businesslike way of operation would return.

We chose to follow the latter plan. We expected the practitioners of the bidding game to now be on the outside looking in. It would appear that history proved we made the right decision. However, with this bill now before you, only more time will tell if this is so.

The broad and liberal extension of time granted to holders of high-priced contracts are slowing or stopping economic recovery in our region. The high bidding is returning while the timber under contract remains standing. The schools and local governments are having to levy additional taxes on the already overburdened taxpayers. These taxes are to replace the receipts that should be coming from overbid timber sales now under extension. The mills that will not bid to unrealistic prices are being forced into curtailment.

Our company alone to survive the bidding wars reduced employment from 750 employees in 1978 to 450 at present. We hope to return these employees to their jobs with a return of normal times.

The concern of massive bankruptcy and the effects on the community should not be a consideration. If a timber supply, a labor pool, and more importantly a market that would allow this timber to be converted at a profit exists, be assured someone will be operating a mill in that community.

Permission to turn back timber sales or the granting of lengthy extensions to those firms currently bidding on and bidding up short-term timber sales would only magnify the current problems and create long-term problems as well. This type of solution would create a scenario where wild speculative bidding could become a standard method of operation. It will be based on the premise that the Government has bailed us out once, surely they will do it again.

I would urge that all existing overpriced or more correctly overbid timber contracts be enforced, with possibly an extension of time for the contractual performance allowed. This extension should begin immediately and include set timeframes for performance of the contract. The set timeframes must be enforceable and include penalties for nonperformance. This would no doubt hurt some purchasers, but bear in mind this hurt was self-inflicted and for too long we have pondered this problem. It's now time to pick up the pieces and make ours a viable industry again.

The CHAIRMAN. Mr. Crites, the balance of your statement will be put in the record in full. I appreciate your testimony.

Mr. CRITES. Pardon?

The CHAIRMAN. I said the balance of your statement will be included in full. Your time has expired.

Mr. CRITES. All right.

[The prepared statement of Mr. Crites follows:]

Testimony of: Duane Crites
Timber Manager
Timber Products Co.
Medford, Oregon

Pertaining to Senate Bill S 916

Before the
Subcommittee on Public Lands & Reserved Water
Committee on Energy & Natural Resources

United States Senate
April 22, 1983

I am Duane Crites, Timber Manager for Timber Products Co. We are headquartered in Medford, Oregon with plywood manufacturing plants in Medford, White City and Grants Pass, Oregon. A particleboard plant in Medford, Oregon and a green veneer plant located in Yreka, California.

Timber Products has been in continuous operation in the manufacturing of wood products for 55 years, under 3 different ownerships. We have a timber land base of approximately 57,000 acres located in Jackson County Oregon.

This land for the most part is reforested and is not at this time capable of sustaining a commercial timbering operation.

In the last year we have committed ourselves to a modernization and updating of our Medford facility at the cost of $2,300,000. The primary goal of this updating is to meet the future environmental standards for clean air. So you can see we are in this business for the long run.

For some 30 years we have been a regular purchaser of Public Timber in Southern Oregon and Northern California. Beginning in the late 1970's we found ourselves further on the outside looking in. As the bidding for this Timber reached levels far beyond our capabilities, a war of attrition thus began, with two separate game plans being used by participants:

1. Bid and tie up all the Public Timber at any cost until competing mills were forced to close their doors due to a lack of raw materials.
2. Buy only the timber that could be obtained at a price that, when processed, a reasonable man could expect it to yield a small profit or at least break even; waiting and hoping that the wild speculation at the bidding table would subside and a more business like way of operation would return.

We chose to follow the latter plan. We expected the practitioners of the bidding game to now be on the outside looking in. It would appear that History proved we made the right decision, however with this bill now before you, only more time will tell if this is so.

The broad and liberal extension of time granted to holders of high priced contracts are slowing or stopping economic recovery in our region. The high bidding is returning, while the timber under contract remains standing. The schools and local governments are having to levy additional taxes on the already overburdened taxpayers. These taxes are to replace the receipts that should be coming from overbid timber sales now under extensions. The mills that will not bid to unrealistic prices are being forced into curtailments. Our company alone, to survive the bidding wars reduced employment from 750 employees in 1978 to 450 at present. We would hope to return these employees to their jobs with a return to normal times.

The concern of massive bankruptcies and the effect on the communities should not be a consideration. If a timber supply, a labor pool, - - and most important a market that would allow this timber to be converted at a profit, - - exists - - be assured someone will be operating a mill in that community.

Permission to turn back timber sales or the granting of lengthy extensions to those firms currently bidding on and bidding up short term timber sales would only magnify the current problems and create long term problems as well. This type of solution would create a scenario where wild speculative bidding could become a standard method of operation. It will be based on the premise that the government has bailed us out once, surely they will do it again.

I would urge that all existing over priced - - or more correctly over bid timber contracts be enforced, with possibly an extension of time for the contractual performance allowed. This extension should begin immediately and include set time frames for performance of the contracts, the set time frames must be enforceable and include penalties for non performance.

This would with no doubt hurt some purchasers, - - but bear in mind this hurt was self inflected, and for too long we have pondered this problem. It's now time to pick up the pieces and make our's a viable industry again.

It's only after a great amount of soul searching that I present this testimony, as many of those who would be adversly effected by it are acquaintances and some I count as personal friends. I can express my sympathy for their plight, but I can recall the message given me loud and clear during the heat of the bidding wars, "If you can't stand the heat get out of the kitchen." I close in saying, had the high bidders strategy worked, - - I can hardly see us receiving any consideration or second chances but rather the reflection of "Nothing Ventured Nothing Gained."

The CHAIRMAN. Thank you, Mr. Heyrend.

STATEMENT OF PAUL W. HEYREND, PRESIDENT, SMALL SAWMILL OWNERS ASSOCIATION AND HEYREND LUMBER CO., ARTOIS, CALIF.

Mr. HEYREND. Thank you. Mr. Chairman I am Paul Heyrend, president of the Small Sawmill Owners Association located in Chico, Calif.

I also own and operate a small sawmill and logging company in Artois, Calif. The association has 118 members of small sawmill owners who primarily obtain their raw materials from the national forests. Our members range in size from 3 employees to slightly over 100 employees, and can manufacture from 300,000 board feet of timber per year to 4 million board feet per year. We have been in existence as a nonprofit organization for 2 years, and I am very pleased to have this opportunity to give our views on timber sale contract relief to this committee.

Our association is greatly opposed to the contract relief as proposed by Senator Hatfield in his bill, S. 916. Our members were very prudent in the past several years in their purchases of raw materials for their mills. In many cases they were second or third bidders on sales. Many members curtailed their production, and at times shut down completely.

Senate bill S. 916 will help some large and small companies whether they need assistance or not, but it will mostly help the large companies which control most of the public timber in California region 5 of the Forest Service. In region 5 there is approximately 5 billion board feet of timber under contract as of December 1982. Six companies of the approximately 80 purchasers have 3.2 billion board feet of this 5 billion board feet of timber. They are listed as follows: First is Sierra-Pacific Industries with 1,023 million board feet. Louisiana-Pacific is second with 778 million board feet. Third is American Forest Products with 376 million board feet. Fourth is Diamond International Corp. with 365 million board feet. Southwest Forest Products is fifth with 293 million board feet, and sixth is Roseburg Lumber Co. with 244 million board feet.

These same companies have continued their trend of purchasing Forest Service timber at speculative prices. Sierra-Pacific Industries was the successful purchaser of the Pride timber sale bid on March 31, 1983. They have 5 years to remove the 20.67 million board feet of timber. This sale is in deficit of $1,601,925; 10.45 million board feet of this timber sale is in white fir.

The Western Wood Products index for white fir for the fourth quarter of 1982 was $157.78 per thousand board feet. Sierra-Pacific Industries's bid for the white fir standing timber was $43.60 per thousand board feet, plus slash deposit of $1.41 a thousand, and road deposit of $2.40 a thousand, coming to a total of $47.41 a thousand. The Forest Service appraisal for logging this sale was $103.05 per thousand board feet and $119.83 per thousand board feet for manufacturing the logs into lumber, bringing the total cost for the average lumber produced from this sale to $270.32 per thousand board feet.

The average selling price for white fir lumber in the first quarter of 1983 was $202.64 per thousand board feet. If this sale was harvested when bought, they would have an approximate net loss of $67.68 for every thousand board feet of lumber produced. The only way these sales that are deficit or overbid can be harvested is to wait for inflation to raise the price of the finished lumber products. I call this speculation and timber hoarding.

On February 2, 1983, Diamond International Corp. was the successful bidder on the Glen Marie timber sale, pending a resolution of a protest by the Louisiana-Pacific Corp. This sale contains 15.6 million board feet of timber on a 5-year contract for removal. This sale was $963,538 in deficit. Diamond International bid an average price of $191.24 per thousand board feet for the timber which is an overbid of 1,172 percent of the advertised price.

Roseburg Lumber Co. was the successful bidder on the Hambone timber sale on March 17, 1983. This has a 3-year contract to remove the timber and is $666,004 in deficit for an average of $107.42 per million—thousand board feet. Roseburg added a premium bid to this sale of $48.99 a thousand, making it even more difficult to make a profit on this sale. They have to hold on this sale until the market comes up or lose many hundreds of dollars per thousand board feet. Again, you have to speculate on this sale to realize any profit.

[The prepared statement of Mr. Heyrend follows:]

Small Sawmill Owners Association

Post Office Box 3524
Chico, California 95927
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Testimony of: Paul W. Heyrend
President
Small Sawmill Owners Association

Before the
Subcommittee on Public Lands and Reserved Water Committee
on Energy and Natural Resources

United States Senate

April 22, 1983

I am Paul Heyrend, President of the Small Sawmill Owners Assoc., located in Chico, Ca. I also own and operate a small sawmill and logging company in Artois, Ca. The association has 118 members of small sawmill owners who primarily obtain their raw materials from the National Forests. Our members range in size from 3 employees to slightly over 100 employees, and can manufacture from 300 thousand board feet of timber per year to 40 million per year. We have been in existence as a non-profit organization for two years.

I am very pleased to have this opportunity to give our views on Timber Sale Contract Relief to this committee. Our association is greatly opposed to the contract relief as proposed by Senator Hatfield in his bill S.916. Our members were very prudent in the past several years in their purchase of raw materials for their mills. In many cases, they were second or third bidders on sales. Many members curtailed their production, and at times, shut down completely.

Senate bill S.916 will help some large and small companies, whether they need the assistance or not. But it will mostly help the large companies which control most of the public timber in California Region 5 of the Forest Service. In Region 5, there is approximately 5 billion board feet of timber under contract as of December, 1982. Six companies of the approximately eighty purchasers have 3.2 billion board feet of the 5 billion. They are listed as follows:

1.	Sierra-Pacific Ind.	1,023	million board feet
2.	Louisiana-Pacific Corp.	778	" " "
3.	American Forest Prod.	376	" " "
4.	Diamond International Corp.	365	" " "
5.	Southwest Forest Ind.	293	" " "
6.	Roseburg Lumber Co.	244	" " "

These same companies have continued their trend of purchasing Forest Service timber at speculative prices. Sierra-Pacific Ind. was the successful purchaser of the Pride Timber Sale, bid on March 31, 1983. They have five years to remove the 20.67 million board feet of timber. This sale is in deficit $1,601,925. 19.45 million board feet of the timber is in White Fir. The Western Wood Products index for White Fir for the fourth quarter of 1982 was $157.78 per thousand board feet(MBF). Sierra-Pacific Ind. bid for the White Fir standing timber was $43.60MBF, plus slash deposit of $1.41MBF, and road deposit of $2.40MBF, coming to a total of $47.41. The Forest Service appraisal for logging this sale was $103.05MBF, and $119.83MBF for manufacturing logs into lumber, bringing the total cost for the average lumber produced from this sale to $270.32MBF. The average selling price for White Fir lumber in the first quarter of 1983 was $202.64MBF. If this sale was harvested when they bought it, they would have had an approximate net loss of $67.68 for every thousand board foot of lumber produced. The only way these sales that are deficit or overbid can be harvested, is to wait for inflation to raise the price of finished lumber products. I call this speculation and timber hoarding.

On Feb. 2, 1983, Diamond International Corp. was the successful bidder on the Glen Marie Timber Sale (pending a resolution of a protest by Louisana-Pacific Corp.). This sale contains 15.06 million board feet of timber on a five year contract for removal. This sale was $963,538 in deficit. Diamond International bid an average price of $191.24MBF, or an overbid of 1172% of the advertised rate.

Roseburg Lumber Co. was the successful bidder on the Hambone Timber Sale on March 17, 1983. This has a three year contract to remove timber, and is $666,004 in deficit, for an average of $107.42 per MBF. Roseburg added a bid premium to the sale of $58.99MBF, making it even more difficult to make a profit on this sale. They have to hold this sale till the market comes up, or loose many hundreds of dollars per thousand board feet. Again, you have to speculate on this sale to realize any profit.

There are many more instances of this continuing speculation on timber sales by these large companies other than these few examples.

I would also like to point out that the timber base in Region 5 of the Forest Service, is being locked up with long term timber sales and contract term adjustments. The following are estimates from each individual forest in our area on the percent of available timberland currently under contract:

Lassen National Forest - 70%.
Plumas National Forest - 60%.
Mendocino National Forest - 50%.
Shasta-Trinity National Forest - 49%.

In the past forty years that I have worked and been in the lumber business in northern California, there are only three companies remaining which were here in the 1930's, and they are individually, family owned, lumber companies. So change in any business is inevitable, and the process of supply and demand should work its natural order. Most companies which have bid speculatively, we know have many assets in land, timber, buildings, foreign holdings, etc. If they are in financial trouble, they could liquidate some of their assets, instead of expecting welfare from the government.

We feel the current Forest Service regulations in the West on bidding and purchase of Timber Sales, should be improved to alleviate the problems of speculative bidding, timber hoarding and other unwise overbidding practices. (It would probably be of interest to you to read the G.A.O. Report on the Plumas National Forest, Document G.A.O. CED-82-88, June 23, 1982.) We suggest the following ideas for future rules and procedures to be adopted to help solve these problems.

1. All timber sales should be sealed bids.

   Region 8 of the Forest Service uses only sealed bids.

   In a study of small timber sales made by our association in 1982 in Region 5, sealed bid sales of 1 million board feet and under, and of a one year contract, averaged $53.30MBF. Sales with a two year contract, oral auction bidding, and of 1 million board feet and under, averaged $99.00MBF. The difference of $45.70MBF is pure speculation.
2. No sale should contain over 5 million board feet of timber in a contract.

The maximum in Region 8 now is 6 million board feet.

3. A maximum of a two year time period for the completion of a timber sale contract.
4. All road construction on timber sales should be on a separate contract.
5. More Tree Measured Sales. All Tree Measured Sales should be completely marked prior to advertisement.
6. All logs should be scaled at an authorized Forest Service scaling ramp or mill yard. (Eliminating all Mill Deck Scaling.)

In conclusion, we would like to state we are in opposition to any contract relief. The default process should be in effect as the terms of any contract. The facts prove the companies who would most benefit by this relief, do not seem to be concerned by their past overbidding and speculation, as they are certainly continuing this same practice. Unless, of course, they think they will always be able to be bailed out. Let the credibility of contracts with the government stand, or who will have faith in it at all?

We thank you for your consideration of our views. We hope to be working with you to improve the conditions for all of the timber industry.

The CHAIRMAN. Mr. Heyrend, thank you very much.

Mr. Smith.

STATEMENT OF HAROLD R. SMITH, TIMBER MANAGER, RSG FOREST PRODUCTS, KALAMA, WASH.

Mr. SMITH. Yes, Mr. McClure. My name is Harold Smith. I hold the position of timber manager for RSG Forest Products located in southwest Washington.

We have four sawmills, two in Kalama, Wash., and two in northwest Oregon. We employ 450 people and have been operating at full capacity in all our mills during the recession.

We can appreciate the difficulty in harvesting high-priced timber sales as we have been milling logs from high-priced sales for the past 4 years. We think there may be some just reason for relief and we would support this bill, but only if there is something done to stop overbidding on future timber sales.

It is our concern that passage of this bill will give the speculator the option of harvesting the timber and giving it back to the Government.

In the April 17 issue of the Portland Oregonian there was an article entitled "Panic Bidding Alarms Timber Concerns." According to this article, one of the biggest companies in Oregon having more than a billion board feet of high-priced timber under contract is already bidding 10 times over the appraised value.

It is our opinion that overbidding in our area is caused by the offering of long-term sales without indexing. By offering short-term sales, it will reduce speculation.

Thank you.

[The prepared statement of Mr. Smith follows:]

TESTIMONY OF

HAROLD R. SMITH
TIMBER MANAGER
RSG FOREST PRODUCTS

BEFORE THE

SUBCOMMITTEE ON PUBLIC LANDS OF RESERVED WATER
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

April 22, 1983

My name is Harold Smith. I hold the position of Timber Manager for RSG Forest Products located in southwest Washington. We have four sawmills; two in Kalama, Washington and two in northwest Oregon. We employ 450 people and have been operating at full capacity in all our mills during the recession.

We can appreciate the difficulty in harvesting high-priced timber sales, as we have been milling logs from high-priced sales for the past four years.

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It is our opinion over bidding in our area is caused by the offering of long-term sales without indexing.

By offering short term sales you will reduce speculation.

The CHAIRMAN. Thank you very much.

Mr. Dobson.

STATEMENT OF FORREST H. DOBSON, MANAGER, TIMBERLANDS, W-I FOREST PRODUCTS, WILSONVILLE, OREG.

Mr. DOBSON. Mr. Chairman, my name is Forrest Dobson. I am presently employed by the W-I Forest Products, Inc., headquartered in Portland, Oreg. W-I Forest owns and operates seven sawmills, a chip mill and a trucking company engaged in hauling our products. Three of the sawmills, the chip mill, and the trucking company, are located in north Idaho, a sawmill in Montana, and three mills in eastern Washington—Spokane, Cookmere, and Peahastin.

Through these production facilities we annually convert approximately 210 million board feet of logs. Federal timber under the management of the U.S. Forest Service is our main source of supply.

As of March 31, 1983, W-I had approximately 227 million board feet of U.S. Forest Service timber under contract. The above volume was purchased under competitive conditions and only minor volumes were purchased at the advertised rate. It is safe to say that most sales were purchased at prices above what we would like to have paid. By the same token, our competitors were willing to pay more, much more under the same conditions on sales which we were the unsuccessful bidders.

We can and will complete all our sales under the present contractual requirements available to us at the present time, on time.

We oppose two of the major components of this legislation. Section 2(a)(1) allows at the request of the purchaser a termination of up to 40 percent above the estimated timber volume under contract. We believe this section will, quote, unquote, let off the hook those companies that most heavily engaged in pure speculative bidding.

In some instances, and we are well aware of one in particular, this excessive bidding was used to not only accumulate a large backlog of timber under contract, but also as a means to gain more lasting effects. We refer here to the small business set-aside timber sale program. Unrealistically high bids on timber sales in the Chelan marketing area by SBA-sized concerns in the period of 1977 to 1980 resulted in an inordinate increase in the SBA share of timber sales upon the recalculation in 1980 for the next 5-year period. The SBA share rose from 28 percent to 62 percent.

W-I has the only conversion facilities within the marketing area and is now restricted from bidding on 62 percent of the sale offering volumes. Our status is indeed tenuous. Individual logger-purchasers also now find it difficult to market their logs. This legislation would reward those high bidders by permitting default without penalty and not correcting inequities that W-I feels was an intentional effort on the part of some to drive the SBA shares to an absurd figure. Already we have witnessed the default of some of these sales, but the damage they have created for W-I will remain behind them for many years. W-I's facilities could process from 60 to 70 percent of the area's allowable sale program.

Therefore, W-I feels that this legislation must address this issue if it is to become the law of the land. To correct this inequity and others like it, the SBA shares should be rolled back to 1975 levels.

Just a short note—we do favor the road credit issue. We are much in favor of the road credits, and we think that should be passed whether this law goes through or not.

We thank you.

The **Chairman**. Thank you very much. I have heard that before.

Mr. **Dobson**. I thought you had.

[The prepared statement of Mr. Dobson follows:]

TESTIMONY OF

FORREST H. DOBSON
MANAGER, TIMBERLANDS
W-I FOREST PRODUCTS

BEFORE THE

SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

APRIL 22, 1983

Gentlemen:

My name is Forrest Dobson; I am presently employed by W-I Forest Products, Inc., a privately owned company. I have been engaged in the purchasing, logging and conversion of federally owned timber since 1955. Through these many years neither the present company nor its previous owners have ever defaulted on a timber sale. W-I Forest Products owns and operates seven sawmills, a chip mill and a trucking company engaged in hauling our products. Three of these sawmills, the chip mill and the trucking company, are located in North Idaho, a sawmill in Montana, and three mills in eastern Washington (Spokane, Cookmere and Peahastin). Through these production facilities we annually convert approximately 210 million board feet of logs into 294 million units of lumber and/or chips under normal operating conditions. W-I is not a land-based company, therefore we must completely rely on a timber supply provided from federal lands, state lands and private lands. Federal timber under the management of the U.S. Forest Service is our main source of supply.

This source provides approximately seventy percent of our sawlogs on an annual basis. W-I employs approximately 1,100 people in its operation.

As of March 31, 1983, W-I had approximately 227 million board feet of U.S. Forest Service timber under contract. Under the annual log use as stated above you can see that we have only slightly more than a one year's supply purchased ahead of our operations if we cut it all in one year. However under our normal purchase pattern of a mix of private-public timber we would exhaust the volume in two years, providing no additional purchases were made.

The above volume was purchased under competitive conditions and only minor volumes were purchased at the advertised rates. It is safe to say that most sales were purchased at prices above what we would have liked to pay. By the same token our competitors were willing to pay more, much more under the same conditions, on sales on which we were unsuccessful bidders. I have recounted these few figures to illustrate our present condition.

We can and will complete these sales under the present contractual requirements so amended by legal opportunities available to us at the present time.

We want to emphasize that bidding on government timber is a gamble. There is no guarantee of the volume, logging costs, wood construction costs or, least of all, a break even or profit picture. Each conversion facility must weigh any particular sale as to how well it meets his production goals and bid accordingly. Those willing to speculate the greatest in the golden years of 1978-'79 are now beating a path to your door for relief from their apparent misjudgment.

As you might have assumed by now, W-I is opposed to particular sections of S. 916 Federal Timber Contract Relief.

We oppose two of the major components of this legislation.

1. Section 2(a)(1) allows, at the request of the purchaser, a termination of up to forty per centum of the estimated timber volume under contract.

We believe this section will "let off the hook" those companies that most heavily engaged in pure speculative bidding. In some instances, and we are well aware of one in particular, this excessive bidding was used to not only accumulate a large backlog of timber under contract but also as a means to gain more lasting effects. We refer here to the Small Business set-aside timber sale program. Unrealistically high bids on timber sales in the Chelan marketing area by SBA size concerns in the period 1977-'80 resulted in an inordinate increase in the SBA share of timber sales upon the recalculation in 1980 for the next five-year period. The SBA share rose from 28 per centum to 62 per centum.

W-I has the only conversion facilities within the marketing area and is now restricted from bidding on 62 percent of the sale offering volumes. Our status is indeed tenuous. Individual logger-purchasers also now find it difficult to market their logs.

This legislation would reward those "high bidders" by permitting default without penalty and not correct the inequity that W-I feels was an intentional effort on the parts of some to drive the SBA shares to an absurd figure. Already we have witnessed the default of some of these sales, but the "damage" they have created for W-I will remain behind them for many years. W-I's facilities could process from 65 to 70 percent of the areas allowable sell program.

Therefore W-I feels that this legislation must address this issue if it is to become the law of the land. To correct this inequity and others like it, the SBA shares should be rolled back to the 1975 levels. Thus eliminating the effect of any terminated sales on the share calculations.

We would also oppose the limitation of fiscal year 1984 in Region VI of 4.1 billion board feet of timber sales. Not knowing how this volume would be locally assigned and since it is a decrease in planned volume, we do not wish to risk a cut in the proposed sales in our immediate operating area.

We greatly favor the purchaser credit provision of

Section 6 in S. 916. All road credits should be effective and transferable to other sales within the bounds described in Section 6. This section should become law whether or not S. 916 passes in its entirety.

We would favor a term adjustment of all contracts of five years as per Section 2b(1). Such a term adjustment would allow a period of years to gradually absorb the high prices timber into a mix with cheaper timber sales. This may be rendered moot as recent competitive bidding in western Oregon and western Washington seems to be returning to much higher prices than warranted by current timber indices.

Recent news from the U.S. Forest Service seems to indicate that they are working on proposals that may allow purchasers to buy their way out of the monsters they created. We suggest that the proposal be allowed to surface prior to any legislative action such as the two proposals now before you.

Thank you.

The CHAIRMAN. Mr. Cheek, you have indicated that Potlatch is opposed. You have also suggested that the bid reductions upon State lands, State sales, in the three coastal States have reduced the cost of operation for your competitors primarily.

If your company availed itself of the opportunity to extend on Federal timber and you could bid back on volumes of new timber at presumably lower cost, would that alleviate the problem of the competition of the lumber that is coming, the logs that are coming from the State lands?

Mr. CHEEK. I think last year I thought that it might, and since then I have learned a good deal about conditions outside the area where we operate, and the extensions or contract term adjustment for the holders of present contracts would virtually eliminate the possibility of timber being offered for sale in certain national forests on the coast I am told, Senator, and while I think that would not be a problem for us or a hardship, it apparently would be a considerable hardship for other companies.

The CHAIRMAN. If at the same time the Forest Service has a sales program that puts additional volumes on the market so that other competitors with those who are purchasing on State lands where they did get a price adjustment on their contracts under provisions of the State practices in the States, would not that allow their competitors to bid in lower contracts on the Federal lands?

Mr. CHEEK. I am not understanding the question, Senator.

The CHAIRMAN. As I understand your statement, you have suggested that the State rollback of price has rendered those who depend upon Federal contracts less competitive.

Mr. CHEEK. No. It was a regional thing, Senator. In Idaho we buy timber from any land that is available, but we are limited by the region. We can only haul it so far.

On the coast, on the west side of the Cascades, there were a number of things that were tried to get mills back again and return some of this unemployment, and it was on State lands, and of course, the short-term sales on Federal lands where the timber was a lower cost than anything else that was available to them and made them more competitive with some of the other parts of the country.

The CHAIRMAN. If the same thing were to occur within your region, the Federal region, not the rollback in price on State land but the opportunity to bid on new volumes on Federal land, it would be presumably lower cost volumes, would they not?

Mr. CHEEK. Presumably, yes.

The CHAIRMAN. Presumably that is one of the things we are looking at in terms of current bidding practices.

Mr. CHEEK. That is true except the inland timber, the bid prices are very much lower. The differential that you have to work with is very much less.

The CHAIRMAN. Yes, and that is one of the reasons the bill is balanced with the effect of the road credit provision.

Mr. CHEEK. That is one of the reasons it is in there. I don't think that balances the bill, however.

The CHAIRMAN. It does tend in the direction of adding some balance.

Mr. CHEEK. It tends in that direction a very small bit, yes.

The **Chairman**. Mr. Crites, I understand you to say that you have some sympathy for people who got into that problem. You also suggest that, and some of those people are friends of yours.

Mr. **Crites**. Yes.

The **Chairman**. But if I understand you correctly, you don't think they have, would extend any sympathy to you if it were on the other side?

Mr. **Crites**. I really don't. Had we not been able to buy timber and closed our doors, I'm sure we wouldn't be here pleading for any consideration.

The **Chairman**. You wouldn't be here? You would just go out of business?

Mr. **Crites**. That's right. That is one freedom that this country grants is the freedom to fail occasionally.

The **Chairman**. Mr. Heyrend, I understand you to indicate that you want nothing done with respect to contract clearance, is that right?

Mr. **Heyrend**. That's right.

The **Chairman**. You want the market to continue just the way it is?

Mr. **Heyrend**. Yes. I think that free enterprise should work its magic or whatever you want to call it. I have been in the timber business all my life, and in my statement there, I have been in northern California, and there are only a few mills that are still there that were there in the thirties when I was a little kid.

The **Chairman**. You have got some more national parks than you used to have.

Mr. **Heyrend**. Well, yes—too many.

The **Chairman**. I remember that argument. We were going to make short-order cooks out of some of you loggers up there! Not many of them have taken that opportunity.

Mr. **Heyrend**. No, I don't think they have.

The **Chairman**. Mr. Smith, if I understand your statement you don't object to some adjustment of the current contracts if simultaneously we can do something to limit the amount of speculative bidding on future contracts. Is that correct?

Mr. **Smith**. Yes. That is correct. I am concerned about the long-term contracts tying up a lot of timber on a long-term contract and speculating and disallowing the efficient mill to operate.

The **Chairman**. Mr. Heyrend, I think you set out a number of things that you believe would be helpful in reducing the amount of speculative bidding.

Mr. **Heyrend**. Yes.

The **Chairman**. If all of your suggestions were adopted or substantially adopted so that we were able to say that speculative bidding pressures would have been eliminated or reduced, would that alter your opinion about the current contract adjustment?

Mr. **Heyrend**. It probably would. I think that even what I proposed may not stop all the speculative bidding, but you have to do something to stop or at least think you are going to stop what went on in the past, and we are not hard-nosed on this, but you have to act like maybe you are hard-nosed.

The **Chairman**. Mr. Dobson, you have indicated that you are able to operate even though you have been operating by buying timber in the areas where they have bid far more than the appraised price, is that correct?

Mr. DOBSON. Yes. We have been upgrading. We probably rely 60 to 70 percent on Federal timber, and we did have some shutdowns in most all our mills in 1982. The longest was probably one sawmill in Montana that was down for 6 months. Others varied from a month to 6 months.

The one in Spokane also was down.

The CHAIRMAN. Are you comfortable with operating with 1 year's volume under contract?

Mr. DOBSON. No, sir, I am not very comfortable. That volume would probably stretch out over 2 years with private purchase and a few State timber sales we have, so we probably have 2 years right now.

The CHAIRMAN. What is the general pattern in the industry with respect to the volumes under contract?

Mr. DOBSON. Most industries—well, speaking generally, I think, and probably in our inland area anyway, I think 3 years under contract.

The CHAIRMAN. You are operating substantially under the industry norm?

Mr. DOBSON. Yes, we are.

The CHAIRMAN. Gentlemen, thank you very much for your appearance and your testimony here today.

Senator Hatfield had a prior commitment, and I know that that commitment was most important and pressing and he was necessarily called away from the hearing.

I wonder if there are any witnesses who are on the list who have not yet been heard who have a very severe time limitation? It would be my intention to recess the hearing until the hour of 1:45 and resume at that time. I think we can complete the panels this afternoon without too much delay. I don't want to do that if there are those here who simply cannot remain.

I hear no objection, see no objection. With that, the sub-committee will recess until 1:45.

[Whereupon, at 12:30 p.m., the hearing was recessed, to reconvene at 1:45 p.m. the same day.]

AFTERNOON SESSION

The CHAIRMAN. The committee will come to order. Next we will hear from a panel composed of Mr. Charles Shotts, president, Northwest Pine Association; Mr. James. F. Stock, general manager, Clear Lumber Co.; and A. A. Red Emmerson, president of the Sierra-Pacific Industries, if Mr. Shotts, Mr. Stock, and Mr. Emmerson could come forward, please?

Gentlemen, you were present this morning when we talked about the 5-minute rule and the reason and the necessity? And I appreciate very much your filing for the record the statements that you have, and summarizing them as briefly as possible.

Mr. Shotts.

STATEMENT OF CHARLES F. SHOTTS, PRESIDENT, NORTHWEST PINE ASSOCIATION AND VICE PRESIDENT, GILCHRIST TIMBER CO., GILCHRIST, OREG.

Mr. Shotts. Mr. Chairman, members of the committee, I am Charles Shotts, vice president, Gilchrist Timber Co., Gilchrist, Oreg., and currently president of the Northwest Pine Association an organization of 22 timber product plants in eastern Oregon and eastern Washington.

Gilchrist Timber Co. is a family-owned company founded in 1938, moving from the south at that time. Our company built a sawmill and established the Town of Gilchrist to mill the timber the family had owned since 1903. We currently have a small modern mill which uses about 40 million feet of timber a year, about 80 percent of which comes from national forest lands.

Currently we have 210 employees, many second and third generation families.

Our company supports Senate bill 916 because we believe if companies similar to ours in size that have high-priced timber under contract do not get relief, they will face bankruptcy and there will be dislocation of employees from long-established communities. Unlike us, many of these mills do not have any land base to fall back on but are a 100-percent dependent on public timber.

Besides my position at Gilchrist, I am also president of Northwest Pine Association. Our policy, established by the board of directors in May 1982, is as follows. Northwest Pine Association would support legislation which, one, would provide termination of between 30 percent and 50 percent of the volume under contract, one sale, or 20 million board feet, whichever is greater; No. 2, would allow contract term adjustments but limited to no more than 5 years beyond the original contract termination date; and three, would make all purchaser road credit effective.

The industry in Washington and Oregon is unified in seeking relief for our industry even though the need for relief varies widely. The employees and communities dependent on these companies is similar, and we strongly relate to their problems.

I hope that Senate bill 916 is swiftly passed without amendment and that it grants relief so that we may continue to contribute to the Nation's economic growth.

Senate bill 916 is in the national interest since it would maintain regional economies and spur economic growth recovery for hundreds of communities. Senate bill 916 would be far less costly overall to the Government than no action. The options of contract extension or term adjustment, while of some help, do not go far enough in relieving carrying charges on timber sale contracts that may never be economically operable.

I have just a couple other comments I would like to make, gentlemen. One is Gilchrist Lumber Co. has some timber sales under contract which are not feasible to operate at a profit, probably never will be. These sales were bid up because of people that came in from the outside that had no manufacturing facilities and bid against us.

Gilchrist Timber Co. has a small area that it operates in but does not go outside of that area and bid timber sales, but we do from time to time have people come in and try to buy the timber away from us, but we need the timber in that area to operate our mill.

The other thing is the Senators earlier admonished us for some of the bidding that is going on today, and I would just like to point out to you gentlemen that these prices that are being bid today are still somewhere in the neighborhood of 50 percent of what they were 2, 3 years ago, and I certainly do not like it any better than you do, and if it continues, we certainly will have a credibility problem.

[The prepared statement of Mr. Shotts follows:]

Statement of
Charles F. Shotts
Vice President, Gilchrist Timber Company
Gilchrist, Oregon

Before the
Senate Committee on Energy and Natural Resources
Subcommittee on Public Lands
on S. 916
April 22, 1983

Mr. Chairman and Members of the Committee:

I am Charles F. Shotts, Vice President, Gilchrist Timber Company, Gilchrist, Oregon, and currently President of Northwest Pine Association, an organization of 22 timber products plants in eastern Oregon and eastern Washington.

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3. Would make all purchaser road credit effective."

The industry in Washington and Oregon is unified in seeking relief for our industry even though the need for relief varies widely. The employees and communities dependent on these companies is similar and we strongly relate to their problems. I hope that S. 916 is swiftly passed without amendment and that it grants relief so that we can continue to contribute to the nation's economic growth.

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The CHAIRMAN. Thank you very much, Mr. Shotts.

Mr. Stocks.

STATEMENT OF JAMES F. STOCK, GENERAL MANAGER, CLEAR LUMBER CO., SWEET HOME, OREG.

Mr. STOCK. Yes, Senator. I would like to submit my written statement for the record and make some responsive comments if I might?

The CHAIRMAN. Please, if you will.

Mr. STOCK. I first would like to commend you and our own Senator Hatfield for your persistence in struggling with us to resolve what is a very critical issue.

Senate bill 916 did not just appear out of nowhere. The numbers may look odd to the uninformed, those who have not been involved, but several years ago, a couple of years at least, you and Senator Hatfield asked us as an industry to get together and try to resolve our differences and come together with a plan. For 2 years we went through the painful process of confrontation and dialog to come up with these numbers that may not make sense to anyone from the outside.

It was not an easy process. The entire industry was invited to take part in that dialog. Now my family's company is one of the smallest companies that was in that dialog process, but I assure you that we were granted as much say and input into that process as even the large public companies were, and so I am grateful to the other members of the industry who persisted with us to come to that compromise.

I am disappointed in those that didn't stay with us, and because it is a compromise, then there are folks who will be unhappy, who do not like the bill. I guess I don't really like the bill in a lot of ways. My small family company does not even need relief. We did not buy timber. We do not have timber under contract. We like short-term sales. We keep short volumes and buy close to market, but I believe as an industry that the frustration transcends only the vested interest of our own companies. There are massive social, political, and ethical circumstances that involve the very livelihood of timber-dependent communities in your State and all the Western States.

I was surprised when Mr. Crites made the comment previously that the concern of massive bankruptcy and the effects on the community should not be a consideration. I most heartily disagree. Those of us who use the public resource for our own profit and gain have a responsibility to the community in which we live, and while this process of compromise is going on, and while we are struggling to resolve it, it isn't only the impending bankruptcy of the companies. It is the strangling of public agencies, of school systems and county governments that are running out of funds.

Mr. Cooper, our commissioner from East Linn County this morning, gave testimony to that fact, saying that our county last year operated on 20 percent less revenue than it did the year before, and it looks at even more serious cuts this year, so the strangulation continues while this issue goes on unresolved.

I guess that's it unless you have some questions.

[The prepared statement of Mr. Stock follows:]

STATEMENT OF
JAMES F. STOCK
CLEAR LUMBER COMPANY
SWEET HOME, OREGON

Before the
Subcommittee on Public Lands and Reserved Water
Committee on Energy and Natural Resources
United States Senate
on
S.916 and S.848

April 22, 1983

Mr. Chairman, and members of the Committee, my name is James Stock. My family owns sawmills in Sweet Home and Lakeview, Oregon. We are a very small company with less than 100 employees at both locations. My mother and father founded our company following World War II and have struggled together for over 35 years to keep people working. There have been good times and bad times but these businesses have provided a meaningful life for ourselves and our employees. Now a second generation manages these companies with a third generation well on the way. Second generation employees are taking the places of their retiring fathers. We share together with our employees in a continuity that facilitates a stable community.

We purchase timber exclusively from the Department of Agriculture - Forest Service. Some of these logs we purchase in timber sales and log ourselves; others we acquire in trades with other companies in order to best utilize the cutting capability of our sawmills. Our sawmills are both "cutting mills", meaning we cut mostly specialized products for the industrial market as opposed to dimensional lumber for housing.

The two Oregon communities where our sawmills are located are both timber dependent communities. Without the wood products industry these communities would lose their economic base. Our major concern in the matter before us relates to the survival of these communities. I am talking about my neighbors, the parents of the children my children go to school with everyday. Already one timber company with over 140 employees has closed its doors this year and put those families out of work.

Another major concern for our company, and others like us, is our emerging precarious position with the bonding companies. As this economic crisis in the wood products industry continues, all companies with large volumes of expensive timber under contract continue to be an even greater liability to them. When the Forest Service sells timber the buyer is required to arrange a performance bond prior to the letting of the contract as a guarantee that the buyer will remove the timber as agreed upon. Also, as we remove the timber it is further covered with a payment bond which guarantees we will pay our monthly timber bill. The present volume under contract is so expensive it will never be removed and many companies are facing contract default and bankruptcy. The massive liability facing bonding companies has them seriously disturbed. It is becoming increasingly difficult to obtain bonding. The only alternative to bonding, if we are to operate, is cash. There is no way we could possibly continue to stay in business if we were to tie up huge sums of working capital in security agreements with the United States Government. It is obvious the bonding companies will then only do business with the large publicly held companies, forcing people like ourselves into extinction. My family, and others like us, have continued to express our committment to our communities and our industry by committing our asset base to the building of new modern manufacturing facilities that enable us to improve our product and stay active in the market place. Just this past year my family invested several million dollars in a new mill for the generation to come. All through this economic recession we have kept our plants operating and our people working, despite the fact we are losing money and paying huge interest bills. The only possible light at the end of the tunnel in these times is a less expensive timber base. We are committed to operate and deplete our assets as long as it is possible.

During the past two years I have spent many, many hours in meetings with other representatives of this industry, struggling to develop a concensus on how we can get ourselves out of this very serious predicament so that we can save an industry as well as the many supporting communities that are dependent upon our being a stable industry. Companies of all sizes shared in this together. I was proud of the ethical sensitivity of the industry, the willingness of men to work toward a higher good than just their own vested interest. It was not an easy process. There was a lot of intense anger, frustration and hostility. These good men stayed with the process until we worked out a compromise no one really liked in many ways, but one we could live with. By mid-July the industry, by and large, had agreed upon this proposed legislation. As of this moment the legislation generated out of this painstaking, patient process has not yet been introduced. This bill is a true compromise, as stated earlier. No isolated segment of the industry is totally happy with the bill, but we all believe we can abide by it and survive.

I realize the great difficulty of convincing this committee in a few short hours what took us a year of painful processing to arrive at. We are not asking for a "free ride" or a bail out. The timber industry is not totally responsible for the economic recession that makes it impossible for American families to build houses or buy cars, or for the high unemployment rate. The conditions under which we committed ourselves to these contracts no longer exist. We need a fresh start, a renegotiated agreement with the seller of these goods, the United States Government. If this can not be arranged there will be untold casualties in our industry, very few survivors, very few customers to purchase the resource you plan to sell the next couple hundred years and beyond. I plead with you to give careful consideration to our proposal.

The **CHAIRMAN**. Thank you very much, Mr. Stock.

Mr. Emmerson.

STATEMENT OF A. A. EMMERSON, PRESIDENT, SIERRA PACIFIC INDUSTRIES, ARCATA, CALIF.

Mr. **EMMERSON**. Yes, Mr. Chairman, and members of the Committee; I am A. Emmerson, president of the Sierra Pacific Industries of Arcata, Calif.

Our company is a family-owned business founded by my father and myself in 1949. I have a son managing one of our plants and another, my youngest son, is working for the county who also plans on joining our company after he has received his CPA certificate.

We operate eight sawmills and two millwork plants in northern California. Presently we employ 1,583 people, process about 450 million board feet of timber per year. We are dependent upon national forest timber for our raw materials. Unlike some firms, we do not have a substantial supply of privately owned timber to guide us over the bad times.

The past 2 years have been devastating to our firm, to firms such as ours. We curtailed production in most of our plants and shut down two mills entirely for several months. Even though lumber markets have improved since I testified before this committee in August 1982, there is not sufficient demand to permit timely completion of many timber sale contracts, nor do we have expectations that a housing market the equal of the highest ever experienced will solve the dilemma for western lumber producers. The problem has been compounded by the curtailment forced upon us over the past 2 years.

The high stumpage rates of timber sales that many of us now hold are the result of competition for a short timber supply. The Government has not offered for sale the timber it was authorized to sell under its management plans. It appears that Congress does not intend to increase the timber sale program since recent appropriation hearings indicate the Forest Service in California will be financed to sell only 1.75 billion board feet instead of the 2 billion plus. Thus we can only look forward to high prices that will not allow us to mix them in with the timber already under contract.

I have given testimony previously on this complex problem facing us, and I will not repeat those details today. However, I would like to enter into the record my statement to this committee on last year's bill, S. 2805. A copy is attached to this written statement.

The timber industry, communities, counties, and others in the West that are affected by this situation are in desperate straits. They must have a responsible Federal timber sale program and enactment of S. 916. I would appreciate your support of the bill.

You know also this morning Mr. Heyrend I guess in his statement, he mentioned the volume of timber that Sierra Pacific has under contract. That is just a little over 2 years' supply of timber, and I think there has been other testimony here that people thought they should have 3 years, so even with 1 billion plus feet of timber under contract, we are still in short supply.

Also Mr. Heyrend stated that the timber sale that we purchased March 31, that we had a $67.68 loss in. Well, that was his statement, but I would like to clear it up. I mean if you have got the impression that we are losing money on that sale, that was a good sale. The date that we bought it we had a profit in it and we still do, and I also fully agree with the statement that Senator Hatfield made here on the position that he is taking on controlling timber bidding.

I think it is just outrageous some of the prices that were going. It certainly today is a lower level than what it was a couple of years ago, but I thank you gentlemen for listening to me.

[The prepared statement of Mr. Emmerson follows:]

Statement to the Subcommittee on Public Lands and Reserved Water of the Senate Committee on Energy and Natural Resources on S.2805, Washington, D. C. August 16, 1982.

Mr. Chairman and Members of the Committee:

I am A. A. Emmerson, President of Sierra Pacific Industries, Arcata, California. We have eight modern sawmills and two millwork plants in California, and they all have been dependent on national forest timber. They commonly are the biggest employer in local community. Unfortunately two of them are not running at this time, because of the severely reduced demand for their products. Under normal conditions, we have 1,500 employees and process 450 million board feet of timber per year.

We have, however, been using more of our milling capacity than most western lumber companies. We have been trying to meet our obligations to harvest timber under Forest Service contracts.

Although we feel we are more efficient than the average, we cannot hope to run at full capacity and pay stumpage rates established when there were general expectations of a continued high demand for lumber. Something has to give.

There is not sufficient demand to permit timely completion of many timber sale contracts. In some cases, stumpage rates alone exceed the price to be received for the lumber. There is nothing left to meet logging and milling costs under some of these contracts.

The high stumpage rates resulted from competition for artificially short supplies of timber at a time of high demand. The government has not offered for sale all the timber that would be appropriately sold according to management plans. Shortages have resulted from wilderness controversies and the taking of private forests for the Redwood National Park.

Harvesting of some of the high-priced timber was delayed in California, because of the emergency salvage of nearly 2 billion board feet of timber killed by drought or fires. For the uncompleted contracts, costs continued to rise as lumber prices dropped.

When lumber markets began to deteriorate in 1979, we anticipated the usual short-cycle and a renewal of markets within 6-12 months. That did not occur. In a March 23, 1982 report, Forest Service Timber Sale Contract Situation, the Forest Service said:

> "The economic climate has changed significantly and so has the timber producers' situation. Many have high priced National Forest timber sales under contract. The prices were bid competitively during economic times that were entirely different from the current climate. These National Forest timber purchasers are caught in a squeeze from which there seems no relief. Costs keep increasing and markets have evaporated...

> "The details of the situation facing the individual timber producers are largely unknown...there are apparently National Forest timber sales so high...they could not profitably be harvested, even under the best markets ever experienced."

Because of the unknowns in this severe situation, George A. Craig, a Registered Professional Forester, was asked to review existing timber sales in California. The results showed that the timber industry was in the worst economic situation since before World War II and that our difficulty was greater than the Forest Service or many timber operators had realized. A copy of this two-part study is being submitted with my written statement, and I respectfully request that they be entered into the record. I would like to highlight the results of that in-depth study for you.

The review included 366 contracts which covered 3.7 billion board feet, 60% of the uncut Forest Service timber under contract in California. About 40 mills and 20 different purchasers were involved in the study. Forest Service officials have agreed that the study procedures and results are valid. Those results are significant. The analysis used Forest Service timber appraisal data collected from timber purchasers' records.

Not one of the 366 contracts reviewed had an opportunity for the operator of average efficiency to break-even in the first quarter of 1982. The "best" contract had only 2,867 MBF remaining and a deficit of $1.36/MBF. For all of the contracts, average operating costs per thousand board feet were $295 and stumpage charges were $222 for a total cost of $517/MBF. The expected product price was only $281/MBF; a loss of $236/MBF.

The study also indicated that sales bid in 1976 and 1977 "...are beyond reach for any hoped-for market recovery for the operator of average efficiency."

The drop in market value was also demonstrated by the fact that while the average stumpage price for existing timber sales sampled was $222/MBF, a sample of sales sold in California during the first quarter of 1982 indicated the average stumpage price had dropped to near $67/MBF.

I have attempted to relate some of the facts that indicate that the need for timber sale contract relief is real and that it is severe. More details can be obtained on the California situation through review of the Craig study.

The desperate situation can best be minimized by continuing a reasonable federal timber sale program, permitting the termination of some or all of the existing timber sale contracts, providing for contract term adjustments for the sales bid prior to January 1, 1982 and implementing changes in accounting for Purchaser Credit. There are hundreds of thousands of dollars tied up in unusable Purchaser Credit for which the government has received value, but for which timber purchasers will not be compensated unless there is corrective legislation.

Without such action, there can be only more problems for both the government and the industry—with more business failures, more unemployment and reduced income to the local and Federal governments.

We have a strong personal interest in the welfare of several timber communities in California. Ours is a family-owned business, started by my father at the end of World War II. One of my sons manages one of the millwork plants. All of our managers live in and are part of the local communities, where the mills are situated. My other son is studying to become a CPA and plans to work with the firm. We hope to continue to be important contributors to the communities in which we live.

In order to achieve that goal, there must be a continuing supply of national forest timber offered under reasonable terms. Even if the proposed relief is provided to current contract holders, we only can work our way out of the remaining difficulties by having more timber available at current fair market value.

This concludes my statement. I appreciate your attention and will be pleased to respond to questions.

The **Chairman**. Thank you very much, Mr. Emmerson.

Senator Hatfield.

Senator **Hatfield**. No questions.

The **Chairman**. I would like to ask just this much. Mr. Shotts, you indicate that the bids today are half the, roughly half what they were 3 years ago, but they are moving up, aren't they?

Mr. **Shotts**. It seems that way, Senator.

The **Chairman**. I think that is what the consensus is. It certainly concerns me that the pattern is reemerging that existed in 1979, 1980.

Mr. **Shotts**. I certainly can't argue with you, and I can assure you that there are many within the industry that are quite concerned about it.

The **Chairman**. Mr. Stock, I very much appreciate your statement with respect to, particularly to the notion that the companies have responsibilities to the dependent communities. I hope we can somehow get the Federal Government to agree that they also have some responsibility to the dependent communities.

Mr. **Stock**. That would be very nice, Senator. I would like to second what Mr. Shotts said about the bidding situation. Most recently with the omnibus wilderness bill in the State of Oregon and the Government coming back to us as they did in the early seventies saying gentlemen, we're sorry but there is going to be less resources, you can understand the kind of psychological mindset that that develops especially in those of us who are dependent upon Federal timber.

The **Chairman**. That affects bidding patterns, doesn't it?

Mr. **Stock**. Very definitely, sir.

The **Chairman**. Mr. Emmerson——

Senator **Hatfield**. Mr. Chairman, no one is taking that seriously.

Mr. **Stock**. Yes, sir, they are.

Senator **Hatfield**. Let's not use that as a whipping point.

Mr. **Stock**. Mr. Hatfield, I am even concerned about where you might come from on that issue.

Senator **Hatfield**. You don't need to be concerned about that. You know where I am on that issue.

Mr. **Stock**. I do. In all due respect, sir, we are concerned.

Senator **Hatfield**. When you look at the report of that—we have placed some statistics in the record, Mr. Chairman, just a short time ago—that you look at all of 1982 and all species, and that increase in the first quarter of 1983 was 48 percent, and then you take the Douglas-fir and that increase in the first quarter of 1983 is 51.7 percent over all of 1982, and in Douglas-fir that trend certainly can't be totally ascribed to the talk of additional wilderness.

Mr. **Stock**. Well, as my senior Senator, sir, I respectfully submit to you that neither is erroneous—high bidding for other purchases, and I know this is not the appropriate arena, but I do think that all the factors need to be addressed and wilderness is one of the many factors is all I am saying.

Senator **Hatfield**. It may be one, but——

Mr. **Stock**. You are not convinced.

Senator **Hatfield**. I think we have to remember I think the industry has used wilderness too long as a whipping boy on too many things, and I just happen to be a very strong supporter of industry, but I also happen to be a very strong supporter of wilderness.

Mr. STOCK. I perceive that.

Senator HATFIELD. I just don't like to see it used as an excuse. I don't think it strengthens our case at this particular moment. That is all I am saying.

Mr. STOCK. Thank you, sir.

The CHAIRMAN. Mr. Emmerson, you come from an area where Federal land acquisitions or land decisions have drastically changed the timber base for your area of the country.

Mr. EMMERSON. That is correct, particularly in say a county like Trinity County with RARE II, the study areas and so forth.

The CHAIRMAN. Has there been an adjustment in mill capacity to reflect the change in land base?

Mr. EMMERSON. Well, there is certainly a lot less mills operating in northern California today than there were 10 years ago.

The CHAIRMAN. What I said was kind of a nice way of saying have enough mills shut down to match the supply?

Mr. EMMERSON. I doubt it.

The CHAIRMAN. If they have not, then you will continue to have very severe pressure on the available timber, won't you?

Mr. EMMERSON. That is correct.

The CHAIRMAN. And there will be because of that factor the change in the relationship between land base and mill capacity? You are likely to have in your area at least a continued upward pressure on bid price?

Mr. EMMERSON. Well, it may, but I certainly hope not.

The CHAIRMAN. I understand that. I am concerned about that because it may get misread outside the area. I think every time you have an area that is dependent upon public land and that public land base is substantially reduced somebody is going to have to go out of business.

Mr. EMMERSON. Yes, sir.

The CHAIRMAN. Until somebody goes out of business, there is going to be a pressure on bid price.

Senator HATFIELD. Would the Senator yield on that? I think not only that question of diminution of land base but the limbo in which the land base is held because of the RARE II studies, and because of sufficiency of EISes that were challenged by the California court and the prospect of having RARE III, RARE IV, and RARE V, unless we can put this thing—because this bill, as you know, includes both the question of settling that land base on the matter of RARE II and of the sufficiency of EISes, and I think getting back to the wilderness thing, I think it is not so much the acreage but it is the unknown factor. It is the limbo status in which we have put these lands that is inexcusable on the part of the administration and the Congress and the whole Federal Government in my view.

Mr. STOCK. The study areas will be as bad as wilderness because they are withdrawn from multiple use.

Mr. EMMERSON. One of the other things about bidding on timber, it seems to me as though the restrictions or, you know, putting this 5 percent down, it hasn't slowed down the bidding. It is not enough. I don't think there are enough teeth in this thing as yet. Something more has to be done, and this is the only way that I can see that something like this is going to control it.

The **CHAIRMAN**. I understand what you are getting at. One of the complaints we have from many companies is that the greater the cash advance required, the more pressure there is on companies that don't have adequate financing.

Mr. **EMMERSON**. Well, they just won't buy as much timber, won't have as long a timber supply.

Senator **HATFIELD**. Mr. Chairman, I wonder if I could interrupt a moment? The point Mr. Stock made a while ago about the short-term character of the contract, I wonder if rather than 3-year terms, maybe a shorter term period of contract might also help in holding down some speculative bidding. If they don't have the capital for up-front, to increase the 5 percent to 10 percent perhaps, a shorter term for that contract would help reduce it.

Mr. **EMMERSON**. Yes. Well, Senator, that would, probably that would take some of the speculation out of it, but when you have an operation and you put in millions of dollars into a facility to process it efficiently, I would like to have a backlog of timber that would be adequate to—you know, I feel more comfortable spending the millions of dollars that it takes to be efficient these days.

Mr. **STOCK**. I concur with your recommendation, sir. I think there is a growing consensus in the industry right now that I think if you look at the other statistics about bid ratio, if you look at short-term contracts, you find some interesting insights.

The **CHAIRMAN**. I want to thank each of you for your testimony. Thank you very much.

Mr. **EMMERSON**. Thank you.

The **CHAIRMAN**. Next we will hear from Mr. Jim O'Donnell, Northwest Pine Association, Spokane, Wash.; Mr. Kirk Ewart, Boise Cascade Corp., Boise Idaho; and Mr. Bob Hitchcock, Evergreen Forest Products, Inc., New Meadows, Idaho.

Mr. O'Donnell.

STATEMENT OF JAMES F. O'DONNELL, EXECUTIVE VICE PRESIDENT, NORTHWEST PINE ASSOCIATION, SPOKANE, WASH.

Mr. **O'DONNELL**. Thank you, Senator McClure and Hatfield. Northwest Pine Association supports Senate bill 916 because it is a reasonable compromise carefully worked out by diverse industry segments throughout the United States. The bill falls within the context of the association's position as adopted by our board of directors on May 3, 1982. That position is stated there in the text of my testimony.

The purchaser credit issue is of the utmost importance to our membership as well as to those mills similar to ours in the intermountain region of Montana and Idaho. While negotiting with our associations in support of Senate bill 916, all of the following associations agreed to support the contents of the bill, and John Davis earlier read those assocations' names.

This support hinges on all three segments, namely, purchaser credit, termination, and contract term adjustment passing as a package. I want to skip a few pages there about some of the details on the purchaser credit.

One of the issues that has arisen in the past about purchaser credit is county revenues. Until the passage of the National Forest Management Act of 1976 there was concern about the proration of county revenues. In 1976 county revenues were given full protection by the National Forest Management Act. By amending U.S.C. 500 to include as moneys received the cost of national forest transportation system roads constructed under timber sale contracts, the road costs are now part of the revenue shared with the states to provide in lieu tax payments to counties.

Ineffective purchaser credit can develop after a timber sale has been awarded due to dropping markets and subsequent deescalation in tentative bids. This has happened over the last few years during the recession and is an excellent reason for correcting the problem now, because it is directly related to the current recession.

In our region, roads are constructed for a 20-year life after careful planning by the Forest Service. Usually the road is built and paid for by the original timber sale, although it may serve five or ten other sales in the future. This is why road costs frequently exceed timber values for an individual sale.

Would we lead you to believe this is a reason for not selling timber or building roads? However, it is environmentally better for fish, wildlife and water if a road is constructed through a drainage and the timber harvest is scattered throughout that particular drainage. If every timber sale had to pay for all of the road development on that sale, an entire drainage would have to be harvested to cover these costs. This would be environmentally unsound, and I am surprised that the preservationists present the argument that timber values do not cover road costs and oppose the transfer of purchaser credit. They should be doing exactly the opposite, as a matter of fact.

Transfer of purchaser credit between forests is needed to speed up the time between construction of roads and reimbursement for that construction. In addition, it is an environment plus if a logging contractor in order to recoup his road construction costs is not forced by economics to log under marginal conditions. If an operator only has one forest to transfer his purchaser credit to, he cannot take full advantage of ideal logging conditions to recover his purchaser credit, and therefore may operate under less than ideal conditions. By transferring credit to another forest where conditions might be more suited to logging, the operator can recover his money and the forests will suffer less impact because of the transfer ability.

The Forest Service plans when and where they will build roads well in advance of the budget process. This is done in forest plans or currently in the unit plans. The argument used to preservationists that a change in how purchaser credit is handled will result in road building in additional areas is based on lack of understanding of how this process works. I have made an attempt to explain to preservationists in Washington and Oregon how purchaser credit works, and have enjoyed some success. The people I have talked to seem sympathetic to the fact that road builders should be reimbursed for the work they do for the Federal Government.

I hope that the national preservation leaders will try to understand the problem better and I would be more than happy to work with them to increase their understanding.

It is important to remember that ineffective purchaser credit is a private subsidy to the Government. Further, the need for an elimination of ineffective purchaser credit and transfer of purchaser credit between forests is pertinent to the economic conditions which the timber industry now faces. It is equally important, however, to remember that a fine balance exists between the timber industry in various competitive regions. Passage of a termination bill without the purchaser credit corrections would cause a segment of our industry to receive a proportionately larger amount of relief while another segment continues to suffer from recession-caused inequities.

In summary, I would like to say that in good and bad economic times, all purchasers with national forest timber should receive fair reimbursement for the costs they incur as a result of building public service access roads under timber sale contracts. By making ineffective purchaser credit effective, Congress will allow all timber purchasers to be fairly compensated for the public road-building services they perform.

I would like to submit to the record a copy of Mr. Kirk Ewart's statement from Boise Cascade. Kirk was unable to attend the hearing today.

The CHAIRMAN. It will be placed in the record at this point. Thank you.

[The prepared statements of Mr. O'Donnell and Mr. Ewart follow:]

Testimony of
James F. O'Donnell, Executive Vice President
Northwest Pine Association
Spokane, Washington
Before the
Senate Committee on Energy & Natural Resources
April 22, 1983
S. 916, The Timber Sale Contract Relief Bill

Northwest Pine Association is an association of 15 companies with 32 lumber and plywood plants which operate in Eastern Washington and Eastern Oregon. U.S. Forest Service lands comprise the major portion of our companies' timber base. A copy of our membership roster is attached. I am the Association's executive vice president and a professional forester.

Northwest Pine Association supports S. 916 because it is a reasonable compromise carefully worked out by diverse industry segments throughout the United States. The bill falls within the context of the Association's position as adopted by our Board of Directors on May 3, 1982, as follows:

"Northwest Pine Association would support legislation which:

1. Would provide termination of between 30% and 50% of the volume under contract, one sale or 20 MMBF, whichever is greater;
2. Would allow contract term adjustments but limited to no more than 5 years beyond the original contract termination date; and
3. Would make all purchaser road credit effective."

ONE FOR ALL, ALL FOR ONE

The purchaser credit issue is of the utmost importance to our membership as well as to those mills similar to ours in the intermountain region of Montana and Idaho. While negotiating with other associations in support of S. 916, all of the following associations agreed to support the contents of the bill:

Industrial Forestry Association, Portland, Oregon
Northwest Independent Forest Manufacturers, Tacoma, Washington
Northwest Pine Association, Spokane, Washington
North West Timber Association, Eugene, Oregon
Western Resources Alliance, Eugene, Oregon
Western Timber Association, San Francisco, California
Western Forest Industries Association, Portland, Oregon

This support hinges on all three segments, namely, purchaser credit, termination and contract term adjustment passing as a package.

Because the issues of termination and contract term adjustment will be dealt with in much of today's testimony and because we basically support these two concepts, I want to dwell on the third aspect of the package, that of fully effective and transferable purchaser credit.

REASONABLE TO REIMBURSE ROAD-BUILDERS

It is reasonable and responsible to reimburse the builder of Forest Service roads for this activity. Because deficit sales and, hence, ineffective purchaser credit are much more common in the intermountain region, we have agreed to support the coastal mills' effort to terminate sales as long as they will in turn support our need to correct the unfairness in not being fully reimbursed for the building of Forest Service roads. This achievement of balance provides the equity which makes this legislation beneficial.

HISTORY OF ROAD CONSTRUCTION REIMBURSEMENT

In early Forest Service contracts, the cost of road construction was a part of the logging cost used to appraise the value of the timber. This cost was prorated over the volume of timber advertised in the contract. The cost was amortized over 100% of the volume of the timber removed. Unfortunately for some operators, the volume advertised and the volume removed were not the same; and when there were underruns, the operator was unable to amortize the entire road cost. Correction was sought by amortizing the road based on the first 80% of the volume removed. Unfortunately, this was not totally satisfactory either because of the fact that some sales underran by more than 20% of the advertised volume.

In 1965 a new timber sale contract greatly improved the method of reimbursement for roads built by purchasers. This was the establishment of purchaser credit for construction and reconstruction of specified roads. This credit could be used in payment for timber. The new procedure eliminated the road amortization rate deficits and the need to prorate road costs to individual species for record-keeping of road amortization.

PURCHASER CREDIT

The credit created by road construction is available to pay for any part of the current contract rate except for base rates, required deposits or any cooperative deposits. Industry has objected to this limitation on the use of purchaser credit in the past. Our main argument was that money has been expended to provide capital improvements for the government and use by the public. If not recouped quickly, the money spent is a subsidy to the government from private funds. The industry argued further that purchaser credit should be considered to be the same as cash. "Effective purchaser credit" means unused purchaser credit which does not exceed current contract value minus base rate value.

ROAD-BUILDERS NOT FULLY REIMBURSED

With all of these improvements, situations still exist whereby timber purchasers would not receive full compensation for construction of government-system roads under the timber sale. This occurred often where timber values were low, road costs were high, and environmental protection was expensive. In those situations there was an accumulation of excess purchaser credit.

COUNTY REVENUES

Until passage of the National Forest Management Act of 1976, there was concern about the proration of county revenues. In 1976 county revenues were given full protection by the National Forest Management Act. By amending U.S.C. 500 to include as monies received the cost of National Forest transportation system roads constructed under timber sale contracts, the road costs are now part of the revenue shared with the states to provide in-lieu tax payments to counties.

DEFICIT SALES

When timber sale values are not sufficient to support the costs plus a predetermined return to the government at the time of appraisal, the sale is termed "deficit."

RECESSION-CAUSED DEFICITS

Ineffective purchaser credit can develop after a timber sale has been awarded due to a dropping market and subsequent deescalation in tentative bids. This has happened over the last few years during the recession and is an excellent reason for correcting the problem now because it is directly related to the current recession.

ROAD COSTS EXCEEDING VALUE OF TIMBER PERFECTLY NORMAL

In our region roads are constructed for a 20-year life after careful planning by the Forest Service. Usually the road is built and paid for by the original timber sale although it may serve 5 or 10 other sales in the future. This is why road costs frequently exceed timber values for an individual sale.

Some would lead you to believe that this is a reason for not selling timber or building roads. However, it is environmentally better for fish, wildlife and water if a road is constructed through a drainage and the timber harvest is scattered around in a particular drainage.

If every timber sale had to pay for all of the road development on that sale, an entire drainage would have to be harvested to cover these costs. This would be environmentally unsound, and I am surprised that the preservationists present the argument that timber values do not cover road costs and oppose the transfer of purchaser credit.

TRANSFERABILITY OF PURCHASER CREDIT

Transfer of purchaser credit between forests is needed to speed up the time between construction of roads and reimbursement for that construction. In addition, it is an environmental plus if a logging contractor, in order to recoup his road construction costs, is not forced by economics to log under marginal conditions. If an operator only has one forest to transfer his purchaser credit to, he cannot take advantage of ideal logging conditions to recover his purchaser credit and, therefore, may operate under less than ideal conditions. By transferring credit to another forest where conditions might be more suited to logging, the operator can recover his money, and the forests will suffer less impact because of the transfer ability.

A CHANGE IN LAW WILL NOT ACCELERATE ROAD-BUILDING BUT WILL BE MORE ENVIRONMENTALLY SOUND

The Forest Service plans when and where they will build roads well in advance of the budget process. This is done in forest plans or currently in the unit plans. The argument used by preservationists, that a change in how purchaser credit is handled will result in road-building in additional areas, is based on a lack of understanding of how the process works. I have made an attempt to explain to preservationists in Washington and Oregon how purchaser credit works and have enjoyed some success. The people I have talked to seem sympathetic to the fact that road-builders should be reimbursed for the work they do for the federal government. I hope that the national preservation leaders will try to understand the problem better, and I would be more than happy to work with them to increase their understanding.

BALANCE MUST BE MAINTAINED

It is important to remember that ineffective purchaser credit is a private subsidy to the government. Further, the need for elimination of ineffective purchaser credit and transfer of purchaser credit between forests is pertinent to the economic conditions which the timber industry now faces.

It is equally important, however, to remember that a fine balance exists between the timber industry in various competitive regions. Passage of a termination bill without the purchaser credit corrections would cause a segment of our industry to receive a proportionately larger amount of relief while another segment continues to suffer from recession-caused inequities.

SUMMARY

In good or bad economic times, all purchasers of National Forest timber should receive fair reimbursement for the costs they incur as a result of building public service access roads under timber sale contracts. By making ineffective purchaser credit effective, Congress will allow all timber purchasers to be fairly compensated for the public road-building services they perform.

MEMBER COMPANIES
NORTHWEST PINE ASSOCIATION

Eastern Oregon:

Blue Mountain Forest Products
P.O. Box 1161
Pendleton, Oregon 97801

Boise Cascade Corporation
P.O. Box 610
LaGrande, Oregon 97850

Columbia Plywood Corporation
P.O. Box 1780
Klamath Falls, Oregon 97601

Diamond International Corporation
P.O. Box 1111
Bend, Oregon 97701

Ellingson Lumber Company
P.O. Box 866
Baker, Oregon 97814

Gilchrist Timber Company
P.O. Box 638
Gilchrist, Oregon 97737

Louisiana-Pacific Corporation
P.O. Drawer AA
Pilot Rock, Oregon 97868

Louisiana-Pacific Corporation
P.O. Box 248
Prineville, Oregon 97754

Ochoco Lumber Company
P.O. Box 668
Prineville, Oregon 97754

Prairie Wood Products
Prairie City, Oregon 97869

Russell Industries, Inc.
P.O. Box 323
LaPine, Oregon 97739

Eastern Washington:

Boise Cascade Corporation
Goldendale, Washington 98620

Boise Cascade Corporation
P.O. Box 310
Kettle Falls, Washington 99141

Boise Cascade Corporation
P.O. Box 51
Yakima, Washington 98901

Brauner Lumber Company
Route #2
Kettle Falls, Washington 99141

Guy Bennett Lumber Company
P.O. Box 231
Clarkston, Washington 99403

Layman Lumber Company
P.O. Box 235
Naches, Washington 98937

Louisiana-Pacific Corporation
P.O. Box 257
Ione, Washington 99139

Louisiana-Pacific Corporation
P.O. Box 1575
Walla Walla, Washington 99362

San Poil Lumber Company*
P.O. Box 357
Republic, Washington 99166

Vaagen Brothers Lumber Company
P.O. Box 515
Colville, Washington 99114

Zosel Lumber Company
P.O. Box 580
Oroville, Washington 98844

* Division of Vaagen Brothers Lumber Company

3/83

STATEMENT OF R. KIRK EWART
DIRECTOR, REGULATORY AFFAIRS
BOISE CASCADE CORPORATION
BOISE, IDAHO

BEFORE THE SUBCOMMITTEE ON PUBLIC LANDS & RESERVED WATER
SENATE ENERGY & NATURAL RESOURCES COMMITTEE

APRIL 22, 1983

I am R. Kirk Ewart, Director of Regulatory Affairs for the the Boise Cascade Corporation, Boise, Idaho. I want to thank you for holding these hearings and for the opportunity to testify on the critical subject of Federal timber contract revision legislation. I appear here today in support of S. 916 which we believe provides the necessary mechanism for remedying the economic situation in which our industry finds itself.

It is a long outstanding practice for the owner of timber to bear the cost of road construction necessary to support the sale of the owner's timber cutting rights. This practice is common to all classes of timber owners: industrial, non-industrial, private and all classes of governments owning and managing timber resources. The method of bearing road costs varies by class of landowner, but the underlying principal is the same.

Some timber owners elect to use their cash to build roads necessary for harvest and then recover road costs through higher timber prices at time of sale. Another practice is to reduce the price of timber sold then require the purchaser to use his cash to build needed roads. In this case the purchaser recovers his road building costs by paying less for the timber. There are variations of these basic methods of paying for roads needed for timber harvest, but the end result is the same -- the timber landowner pays for roads needed to harvest his timber.

Because Forest Service timber sale activity take years of presale work and because it must depend upon annual appropriations from Congress to support its activities, this timber owner has never been able to depend upon a predictable flow of cash to support a significant internal road construction program. Therefore, the Forest Service has used timber receipts to finance road development needed to support its timber sale programs.

The method used to compensate Forest Service timber sale purchasers for road construction has evolved through several systems over the past twenty years. First, the total estimated road cost was amortized over the total estimated volume of timber included in the timber sale. This system failed because the volume estimates used at the time of sale preparation often proved to be in excess of that actually harvested resulting in the purchaser failing to recover the full estimated cost of road construction. To remedy this problem the amortization formula was revised to use only 80% of the timber volume estimate as a basis for road cost amortization. This change greatly improved road cost amortization, but failed to deal with a situation which became more noticable as the cost of roads became a more significant portion of the total cost of timber sale operations.

As the cost of road construction escalated, most purchasers would not incur road construction costs until immediately before timber harvest was planned thereby allowing rapid road cost recovery via the amortization process. This procedure resulted in purchasers attempting to use partially completed roads, and using roads which had been completed but not seasoned. Wet weather and green roads generate road surface failure which may diminish the roads ability to perform to design standards. Also the possibility of water quality damage from road construction increases from the practice of construction just prior to harvest.

The operational problems associated with the road amortization system encouraged a new look at the process which resulted in transferable purchaser credit.

As a purchaser constructs roads necessary to harvest timber included in a timber sale, he earns purchaser credit. Once earned, the purchaser credit can be used to pay for timber harvested on the sale generating the purchaser credit, or timber harvested from any other sale on the same National Forest held by the purchaser who earned the purchaser credit. By creating a system which permits timber sale purchasers to recover road construction costs very soon after expenditure, purchasers are then encouraged to build roads as soon as possible after purchase of a timber sale even though logging may not be planned for several years. Therefore, most environmental problems associated with operating over new roads are eliminated or greatly reduced.

The existing purchaser credit system has evolved over a long period during which the Forest Service has attempted to recognize its obligation to compensate timber sale purchasers for roads constructed. This evolutionary process is not yet complete. Purchaser credit must be changed to improve the process of timber purchaser compensation for road construction.

The existing purchaser credit procedure permits timber sale purchasers to use only that purchaser credit which is "effective" for the payment for timber harvested on the same National Forest upon which the effective purchaser credit was earned.

"Effective purchaser credit" is best understood by defining ineffective purchaser credit. Ineffective purchaser credit arises when the cost of necessary road construction exceeds the timber value above timber sale contract base rates. That portion of road construction cost which exceeds timber value above base rates may be earned, but is not effective, so cannot be used by the purchaser to pay for timber harvested. Under circumstances which lead to earning ineffective purchaser credit, the Forest Service has received a road which the purchaser must build, but has not compensated that purchaser for creating the road asset for the United States.

Timber sales which generate ineffective purchaser credit result from several factors. Timber sales which contain contract provisions which adjust stumpage price to reflect the quarterly change in value of the products estimated to be produced from the timber included in the timber sale (escalation) may have had sufficient timber value above base rates to lead the purchaser to believe at the time of sale that all earned purchaser credit would be effective. However, if a market decline occurs after purchase, which happened in 1979, previously anticipated purchaser credits could, at no fault of the purchaser, become ineffective. Under these circumstances the purchaser must still build the roads, but the United States will fail to provide compensation for the road credit received.

In some cases timber sales are offered which at the time of sale do not have enough appraised cash value above base rates to make all or any purchaser credit effective. Under the existing purchaser credit system, the only ways a purchaser of such a sale could be compensated for road construction are: (1) if the sale contract contained stumpage rate adjustment procedures (escalation) and there was a major product market increase during the life of the sale; and (2) if, during the auction of the timber sale, competition resulted in stumpage values being increased to the point that purchaser credit which was ineffective at offering became effective after bidding.

Timber sales which do not contain one hundred percent effective purchaser credit at time of offering are not desirable and should be avoided, but are not, under some circumstances, a poor public management practice. Escalating road costs resulting from inflation and more sophisticated and expensive road construction standards; less timber being available for harvest at the time of construction per mile of road constructed as a result of the Forest Service response to wildlife habitat needs, scenic preservation, maximum harvest unit size, water quality and fish habitat; and less appropriated funds available for access road construction from the major public highway system to the timber harvest areas, have all resulted in more sales with less than total effective purchaser credit. In these cases, the United States fails to compensate the purchaser/road builder, but has in place a valuable road which makes future timber sold tributary to such a road very valuable because of the inplace road. The public has gained access to the area for all manner of recreational activities and the Forest Service has vehicular administrative opportunities to control fire, insects and disease. All this without full payment.

Purchasers who buy timber sales which result in ineffective purchaser credit often do so without choice. A mill without timber supply has only scrap iron value. If only ineffective purchaser credit sales are offered, the mill owner has the choice of attempting to purchase such sales or closing his mill. Such is a difficult choice and forces speculation, an aspect of Forest Service timber sale conduct being discouraged by the Forest Service and the Administration.

By limiting the transferability of purchaser credit to the same National Forest upon which it was earned, an unfortunate and at times anticompetitive circumstances have developed. A purchaser may be a major Forest Service timber sale operator, but may have only one active timber sale on a specific National Forest. Because transfers are limited such a purchaser is unable to use the credit earned in a timely fashion and is thus denied rapid recovery of road construction costs. This situation must be remedied to assure the deservable objective of treating all Forest Service purchasers the same.

Many timber sales are now under contract which were sold in the prerecession era which include large value in ineffective purchaser credit. Some of these sales were purchased with all or part of purchaser credit being effective, but the recession pulled product prices down thus triggering downward stumpage rate adjustment, therefore making purchaser credit ineffective. Some sales were purchased with credit ineffective, but the reces- exaggerated the impact of such credit. This situation could and should be remedied by making all purchaser credit included in existing timber sales effective on a retroactive basis.

In closing, Mr. Chairman, I want to thank you for the opportunity to present our views on S. 916. We look forward to working closely with the Committee as this legislation is developed. I would be happy to answer any questions which you may have.

The CHAIRMAN. Mr. Hitchcock, I notice you have done what many people do. You have moved to the next large town for your home address.

Mr. HITCHCOCK. Yes, that is correct.

The CHAIRMAN. I say that, Mr. Hatfield, because the mill is really located in Tamarack which is not the largest town in Adams County, so he went to the next largest town which is also not the largest town in Adams County, but the next largest.

Senator HATFIELD. I have never heard of New Meadows.

The CHAIRMAN. I was afraid you would rise to that bait and say that.

Thank you. You may proceed.

STATEMENT OF ROBERT T. HITCHCOCK, PRESIDENT, EVERGREEN FOREST PRODUCTS, INC., AND WALLOWA LAKE FOREST INDUSTRIES

Mr. HITCHCOCK. I am Robert Hitchcock, president of Evergreen Forest Products of Tamarack, Idaho. I am also president of Wallowa Lake Forest Industries of Joseph, Oreg. Together these two companies will produce some 60 million board feet of lumber this year. Both mills are heavily dependent upon Forest Service timber.

I will summarize my written statement but ask that it be included in full in the hearing record.

The CHAIRMAN. It will be included.

Mr. HITCHCOCK. I appreciate the opportunity to appear before you today to present my views on S. 916 and S. 848.

The two companies that I represent, and in my opinion, a majority of the forest products companies operating in the intermountain region support S. 916. We support the bill because it would make all ineffective road credits effective. Such a change in the law is needed to insure that all Federal timber purchasers are promptly and fairly reimbursed for the costs they incur when building permanent public access roads for the Forest Service.

We oppose S. 848 because it does not solve the purchaser credit problem.

Mr. Chairman, I want to respond to some of the objections which have been raised about the purchaser road credit provisions in section 6 of S. 916. First, it has been argued that it is not appropriate to make permanent changes to the statute governing the recovery of the purchaser road credit within an emergency relief bill.

I don't understand this argument. If a proposed change in the law is in the public interest, why shouldn't it be approved without worrying about where it is attached? Beyond that point, there are good reasons why the purchaser credit should be part of any timber contract relief bill. For example, the termination provisions of the pending legislation will improve the competitive position of West Coast operators for many years into the future. Companies operating in the Rocky Mountain region will be forced into the position of long-term disadvantage unless the contract termination provisions are balanced with changes to the purchaser credit process. In addition, the ineffective road credit problem is clearly retarding economic recovery of mills in our region. The termination provisions will not help bring us out of the current slump, nor protect us from future market downturns, but the purchaser credit provision of S. 916 will help meet both objectives.

Second, objections have been raised to the purchaser credit proposal on the grounds that it would reduce total Treasury receipts from timber sales. Obviously a change such as the one we seek is not without its cost. However, we believe that the benefits of such a change, including the increased employment and a more stable employment base, far outweigh the costs.

Furthermore, focusing only on the revenues lost obscures the basic policy question at the heart of the purchaser credit issue—should all Federal timber buyers be fairly reimbursed for the costs they incur when building permanent public roads for the Government?

Third, some people have argued making ineffective purchaser road credits effective would grant new authority to the Forest Service to allow the sale of timber in areas where the costs of building roads to reach the timber exceeds the value of the product to be made from the trees. The same individuals contend that the National Forest Management Act of 1976 prohibits such sales. Neither argument is accurate.

A review of the 1976 act reveals that Congress did not intend to prohibit development where immediate costs are greater than immediate benefits. Instead Congress anticipated a long-term accounting. Thus the purchaser credit proposal will not change the current rules that allow timber harvesting and road building only where long-term benefits exceed the long-term costs.

Fourth and finally, it has been stated that the purchaser credit proposal would increase the rate of road building and timber harvesting within roadless areas. That statement is false. Road construction and timber sale activities are strictly controlled by the land management process and are regulated by the Congressional appropriation process. Approval of the purchaser credit proposal will neither increase nor decrease the rate of such activities.

Thank you.

[The prepared statement of Mr. Hitchcock follows:]

Statement of Robert T. Hitchcock

Evergreen Forest Products, Inc.
Wallowa Lake Forest Industries

Mr. Chairman and Members of the Committee:

I am Robert T. Hitchcock, President, Evergreen Forest Products, Inc., of Tamarack, Idaho. Evergreen Forest Products is a small privately-held business with approximately 100 employees. I am also President of Wallowa Lake Forest Industries of Joseph, Oregon, which has 55 employees. Together, these two companies will produce approximately 60 million board feet of dimension lumber this year. Both mills are heavily dependent upon Forest Service timber.

I appreciate the opportunity to appear before you today to present my views on the two timber contract relief bills pending before this committee.

The two companies that I represent and, in my opinion, a majority of the forest products companies operating in the Intermountain region support S. 916 as introduced by Senators Hatfield and McClure. We support the bill because it would make all ineffective purchaser road credits effective. Such a change in the law would ensure that all federal timber purchasers are promptly and fairly reimbursed for the costs they incur when building permanent public access roads under Forest Service timber sale contracts. Under the present system of reimbursement, timber buyers are not always repaid in full for the road building services they perform. We oppose S. 848, Senator Cranston's bill, because it would leave the current flawed reimbursement system intact.

Mr. Chairman, the purposes of my statement before this committee are to: (1) explain how the existing purchaser road credit system operates; (2) describe why the system is often unfair, especially in periods of extreme market decline; (3) outline the changes to the road credit system which we favor (and which are included in S. 916 as Section 6); and (4) respond to some of the objections which have been raised to the proposal to eliminate ineffective purchaser road credits.

Background

Permanent National Forest System roads are constructed to provide access to federal forest resources, both by the government and the general public. The roads are needed for proper administration, protection, management, and use of the national forests.

All permanent roads are planned, designed, and engineered by the Forest Service. Many are actually constructed by that agency. Others are built by private companies which purchase federal timber for use in manufacturing various wood products.

Like any forest landowner, the Forest Service can finance road building through one of two methods: it can use cash (appropriated funds) to pay for a road, or it can finance road construction by trading timber resources for road building services. The vast majority of National Forest System roads are constructed by timber buyers under provisions of timber sale contracts.

Although timber purchasers are not in business to build federal roads, we have accepted road construction clauses in Forest Service timber sale contracts as a required part of doing business with the government. All that we ask now is to be fairly and quickly reimbursed for the costs we incur in building public access roads for the Forest Service.

Purchaser Road Credits

Before each timber sale is sold, the Forest Service prepares an estimate of all required road construction. When the roads are actually built, the timber buyer receives a "purchaser road credit" equal in amount to the Forest Service road cost estimate. For example, if the road estimate is $500,000, then the purchaser credit earned once the roads are built is also $500,000. The credit can be applied to the amount owed the government for the timber cut on the sale under which the road was built. The credit can also be used to pay for timber on another sale bought by the same purchaser on the same national forest. The credit cannot be converted to cash.

Purchaser road credits are "effective" when the value of the finished products to be made from the wood in a timber sale is greater than the cost of making those products (including the cost of road construction). Conversely, purchaser credits become "ineffective" when the finished product value of the timber is less than the cost of making the products. Three hypothetical examples illustrate the difference between effective and ineffective purchaser road credits:

Sale 1. Finished product value of timber = $1,000,000
Costs of production* = $500,000
Permanent road construction costs = $500,000

Subtracting the non-road building costs of production from the finished product value of the timber ($1,000,000 - $500,000), leaves $500,000 for road construction reimbursement. Since all of the road building costs can be recovered, 100% ($500,000) of the purchaser credits are effective.

Sale 2. Finished product value of timber = $750,000
Costs of production* = $500,000
Permanent road construction costs = $500,000

Subtracting the non-road building costs of production from the finished product value of the timber ($750,000 - $500,000), leaves $250,000 for road construction reimbursement. Since half of the road construction costs can be recovered, 50% ($250,000) of the purchaser road credits are effective and 50% are ineffective.

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*manufacturing costs, logging costs, transportation costs, and profit and risk

Sale 3. Finished product value of timber = $500,000
Costs of Production = $500,000
Permanent road construction costs = $500,000

Subtracting the non-road building costs of production from the finished product value of the timber ($500,000 - $500,000), leaves absolutely nothing for road construction reimbursement. Since none of the road construction costs are recovered, 100% of the purchaser road credits are ineffective.

In the three examples I have just described, a permanent asset — a $500,000 road — is constructed for the federal government. While the government is treated identically in all three instances, the timber purchasers are not. The buyer of the first sale is fully repaid for the road he builds, but the buyers of the second and third sales do not receive full repayment for the roads they construct, since all or part of their purchaser road credits are ineffective.

Deficit Sales

Forest Service timber sales for which the production and road costs exceed the end-product value of the timber (such as in examples 2 and 3) are often referred to as "deficit" sales. A sale may be deficit because of any or all of the following "design" factors: (1) the required roads under the sale include an expensive "mainline" road to be used to access many future timber sales in the same vicinity; (2) the road is unnecessarily over-designed for the purposes for which it is intended; (3) the costs of logging the sale and hauling out the timber are unusually high, as is the case where extremely steep terrain must be logged by helicopter or other similar low-impact methods; and (4) expensive fish and wildlife habitat protection measures are required, such as smaller cutting units to protect elk habitat or high-standard roads to protect salmon spawning beds.

In addition to "design" factors, market conditions can also contribute to or cause deficit sales. For instance, the three sales I described earlier can also be viewed as the same sale in which the end-product value of the timber decreases over time. In a declining market, a sale will "go deficit" (and make some or all of the purchaser road credits for the sale ineffective) when the finished product value of the timber falls below the level necessary to absorb the road construction costs and the costs of production. This situation, unfortunately, exists on many uncompleted Forest Service timber sales; that is why there is such a large amount of ineffective purchaser credit at present.

It is a fair question to ask, at this point, why timber purchasers would buy deficit sales and risk losing substantial sums of money when the timber is eventually harvested.

Many forest products companies operating in the western United States are highly dependent upon national forest timber as a source of raw material. If a company has no alternative timber supply, it may buy deficit sales for a time in order to remain in business. Such a company will hope for an upward turn in lumber prices so that its deficit sales become ones which, in the end, at least cover the costs of production. However, a company cannot buy only deficit sales if it expects to remain economically competitive.

It is because we desire to see a reduction in the number of deficit sales, through the elimination of ineffective purchaser road credits, that we are supporting S. 916.

Section 6 of S. 916, A Solution to the Purchaser Road Credit Problem

As the sponsors of S. 916 have stated, regardless of economic conditions, all purchasers of national forest timber ourght to receive fair reimbursement for the costs they incur in building permanent public access roads under Forest Service timber sale contracts. We strongly support the provisions of Section 6 of S. 916 which would accomplish that objective by making all purchaser road credits effective, both on existing and future sales. In order to make sure that timber purchasers receive prompt reimbursement for road building services, we support the changes to existing law which are included in Section 6 to allow unused purchaser credits to be transferable among timber purchasers and applied toward the purchase of timber either on the national forest in which they were earned, or in another national forest in the same section of the country.

Response to Objections about the Purchaser Road Credit Proposal

Mr. Chairman, before concluding my testimony, I want to take a few minutes to respond to some of the objections raised about the purchaser credit proposal embodied in Section 6 of S. 916.

First, it has been argued that it is not appropriate to make permanent changes to the statute governing the recovery of purchaser road credits within an "emergency" relief bill. I'm not sure I understand the logic behind this argument. If a proposed change in the law is in the public interest — as we believe the purchaser credit provisions to be — why should it not be approved without worrying about where it is attached?

Beyond that point, there are good reasons why the purchaser credit proposal should be part of any timber contract relief bill. For example, the termination provisions of the pending legislation will improve the competitive position of West Coast operators for many years into the future. Companies operating in the Rocky Mountain region will be forced into a position of long-term disadvantage unless the contract termination provisions are balanced with changes to the purchaser credit process. In addition, the ineffective road credit problem is clearly retarding the economic recovery of mills in our region. The termination provisions of S. 916 or S. 848 will not help us out of the current slump, nor protect us from future market downturns, but the purchaser credit provisions of S. 916 will help meet both objectives.

Second, objections have been raised to the purchaser credit proposal on the grounds that it would reduce total Treasury receipts from timber sales. (The precise effect of the proposal is difficult to estimate because the relative percentages of effective and ineffective purchaser credits change as wood product prices rise and fall.) Obviously, a change such as the one we seek is not without its costs. However, we believe that the benefits of such a change — including increased employment and a more stable employment base — far outweigh the costs. Furthermore, focusing only on "revenues lost" obscures the basic policy question at the heart of the purchaser credit issue: should all federal timber buyers be fairly reimbursed for the costs they incur when building permanent public roads for the government?

Third, some people have argued that making ineffective purchaser road credits effective would grant new authority to the Forest Service to allow the sale of timber in areas where the costs of building the roads to reach the timber exceed the value of the products to be made from the trees. These same individuals contend that the National Forest Management Act of 1976 prohibits such sales. Neither argument is accurate.

A careful review of the 1976 Act reveals that Congress did not intend to prohibit development where immediate costs are greater than immediate benefits. Instead, Congress intended a long-term accounting. The purchaser credit proposal fits into that statutory framework. It does not change the current rules that allow timber harvesting and road building only where long-term benefits exceed long-term costs.

Fourth, and finally, it has been stated that the purchaser credit proposal would increase the rate of road building and timber harvesting within national forest roadless areas. That statement is false. Road construction and timber sale activities are strictly controlled by the land management planning process and regulated by the Congressional appropriation process. Approval of the purchaser credit proposal will neither increase nor decrease the rate of such activities.

Conclusion

In closing, Mr. Chairman, I would like to thank you and other Senators for your sustained support of S. 916 and your interest in the problems facing the forest products industry. I urge you to continue to do everything possible to secure prompt and favorable approval of S. 916.

-0-

The CHAIRMAN. Thank you very much.

Senator Hatfield.

Senator HATFIELD. No questions.

The CHAIRMAN. I want to thank both of you for addressing the question of purchaser road credit, and I note that the statement filed by Mr. Ewart on behalf of Boise Cascade also does the same thing. They operate in both regions where purchaser road credits are important and also in the region where contract termination is an important factor, so they have a foot in both camps. I think that is perhaps not the case with Evergreen Forest Products, it is?

Mr. HITCHCOCK. No.

The CHAIRMAN. Mr. O'Donnell, I particularly appreciate the statement that you made that you have been trying to communicate to other groups the concerns that you have on what purchaser credits mean. I think you have stated it correctly, that there is a need for communication, and I commend you on that and hope you will continue that effort.

Mr. O'DONNELL. I was noticing the people on the witness list. I anticipated national leaders from the preservationist group, and I see a person from Idaho here. I would be happy to work with Mr. Baird.

The CHAIRMAN. I think you will find him a reasonable, intelligent man, and I am sure that you both will benefit from that conversation.

Mr. O'DONNELL. Good.

The CHAIRMAN. Thank you. We will next hear from the panel of Mr. William Harrison, Millway Lumber Company, accompanied by Robert L. Davis, Southeastern Lumber Manufacturers Association; Gene White, president, Burnett Lumber Co.; and John Davenport, Allied Forest Products.

Senator HATFIELD [presiding]. Mr. Harrison, do you wish to lead off, please?

STATEMENT OF WILLIAM HARRISON, MILLWAY LUMBER CO., BRADLEY, S.C.; ACCOMPANIED BY ROBERT L. DAVIS, SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION, FOREST PARK, GA.

Mr. HARRISON. Thank you, Mr. Chairman. I am William Harrison of Millway Lumber Co. of Bradley, S.C., and I represent my own company and Southeastern Lumber Manufacturers Association. We buy timber from the national forests, and we are interested in this legislation.

With me today is Bob Davis of the staff of Southeastern Lumber Manufacturers who would assist me in any details regarding this testimony.

Last August I had the privilege of addressing the committee on this subject, and we advised the committee at that time that the members of our association were opposed to legislation which contained contract termination.

The membership of our association has reaffirmed that position as late as last week. The reasons for our opposition, Mr. Chairman, remain the same. We are concerned, not necessarily in this order, but with market displacement. It was our opinion then and still is that if there was a reduction in timber prices in the West that we would feel that in terms of western timber moving into the southern territory. This was demonstrated in January 1982 when the Forest Service began selling short-term sales in the northwest regions. The bid price for western timber dropped to almost half the price being paid by southern purchasers at that time. The effect was immediate and drastic.

In 1981 the western market charged 14 percent of the southern market, and at the end of the first half of 1982 they were able to capture over 17 percent of our market. Three percent doesn't sound very large, but it is large when you also lose 30 percent of your market to the Canadians who have moved in with subsidized timber at the same time.

A second reason for our opposition is that we believe this bill is in the form of an entitlement rather than a relief measure. We don't believe that any relief should be granted without a showing of need, and that is not a requirement of this bill.

Senator HATFIELD. Would you like it to be like the tobacco entitlement?

Mr. HARRISON. It could be, sir. I am not in the tobacco business and I don't use it anymore so I would not defend it at all, Senator.

Senator HATFIELD. I just wanted to make sure what you meant by entitlement.

Mr. HARRISON. Yes, sir. As a matter of fact, I wish you would tax it to death.

Senator HATFIELD. Thank you.

Mr. HARRISON. We believe that it is a dangerous precedent to set to allow a termination of a contract by high bidder when the bidder decides that contract is unprofitable. That is a precedent that encourages contractors and all lines of business deals with the Government to request relief from the consequences of their own errors, and we believe this is an error that the Government should not make.

We have been told that timber selling for $450 to $300 a thousand can't be operated at a profit. Frankly, we don't know because we don't know what those figures mean. They certainly do not mean thousand board feet of lumber produced and sold. There is no relationship there and we in the South frankly do not know what the numbers for western operators are. No one has explained it to us. We do not know how much a thousand board feet so-called on the stump produces in terms of lumber, so we really cannot support something when we don't know what we are talking about.

I subscribe to Senator Hatfield's comments this morning about the price of timber, and there is a section in our statement that calls that to your attention, the increase in price of timber in the western regions lately. Since the Senator has commented on that we won't comment further on that.

Another consideration is the lumber manufacturers in the West and in other regions who have refused to bid these prices. Some of these mills have shut down or have suffered severe curtailment of their operations, and this at considerable loss to themselves, rather than pay the prices that were being bid. It so happens that my own mill is in that circumstance. We felt that prices were imprudent. As a result, we were forced to curtail operations, and we suffered considerable losses as a result. We in the South have not submitted a relief proposal because we are not asking for relief.

The Southeastern Lumber Manufacturers Association has repeatedly reminded our western counterparts that we remain ready and willing to review any additional proposal they may wish to make, and to date no compromise proposal has been offered.

While we are not prepared to offer a proposal for timber contract relief, we would like to offer some suggestions for consideration in preventing a recurrence of the present situation. We noted in Mr. Ewart's testimony this morning that we apparently didn't get to that he made several points that we would agree with. One is oral bidding. We think it tends to lend itself to the situation that our friends in the West are now experiencing. Am I out of time?

Senator **Hatfield**. Yes.

Mr. **Harrison**. Let me please say, Senator, in finishing that we oppose the legislation, but if timber contract relief can be eliminated, we would like to talk to our western counterparts and have always remained willing to do so and would like to try to help to get to a solution for those people whom we realize are in need.

[The prepared statement of Mr. Harrison follows:]

SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION

671 FOREST PARKWAY
FOREST PARK, GEORGIA 30050

TESTIMONY OF
SOUTHEASTERN LUMBER MANUFACTURERS ASSOCIATION
ON
S. 916: The Termination, Extension, or Modification of
Federal Government Timber Sale Contracts
Before The
SUBCOMMITTEE ON PUBLIC LANDS
Of The
SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES
in
Washington, D. C.
April 22, 1983

Mr. Chairman and Members of the Committee

I am Bill Harrison, Vice-President and co-owner of Millway Lumber Company, Bradley, South Carolina, a small business lumber manufacturer. Millway Lumber Company has 55 employees and processes approximately seven million board feet of lumber annually. Since my firm purchases national forest timber, I am concerned with the outcome of this legislation.

I am appearing before this Committee on behalf of the Southeastern Lumber Manufacturers Association, an organization of 422 small business lumber manufacturers located in twelve southern states. Our member mills collectively produce nearly three billion board feet of lumber annually and all are independently owned and operated. Approximately 45 percent of our members are in close proximity of a national forest and are dependent, to various degrees, upon the sale of national forest timber for the raw materials needed to operate their manufacturing facility.

With me today is Bob Davis, who serves as the Forester for the Southeastern Lumber Manufacturers Association. Together, we will be pleased to answer any questions at the end of this presentation.

Last August, I had the privelege of addressing the Committee on Energy and Natural Resources concerning this same legislation. At that time, I informed the Committee that the members of the SLMA were opposed to the legislation, and at a recent meeting of our Board of Directors it was determined that we have the same position.

The reasons for our opposition remain the same. We are concerned with market displacement. It was our opinion in August of 1982 that if the Pacific Northwest received a major price reduction on timber, the southern forest products industry would feel the effect immediately. This was demonstrated in January of 1982, when the Forest Service began offering short term sales in Forest Service Regions 5 and 6. The bid price for western timber dropped to almost half of the price being paid by southern purchasers. The effect was immediate and drastic. In 1981, western lumber enjoyed approximately 14% of the southern market. At the end of the first half of 1982 they were able to capture over 17% of our market, a three percentage point increase in only six months. This is while the Canadian lumber industry was increasing their share of our market to over 30% with the help of their government's subsidized timber.

Another reason for our opposition is that we believe this bill is in the form of an entitlement, not a relief measure. There is no requirement for a showing of need. It has been estimated that over 30% of the benefit of this legislation will go to only nine major companies. Most of these are international corporations who do not intend to default on any timber sales. The SLMA is not in favor of any legislation designed to benefit a relatively few companies, virtually all of whom are in one geographical area, to the detriment of other forest products regions. Attached is an excerpt from the 1982 annual report for Louisiana-Pacific Corporation. Please note it states that Louisiana-Pacific has $280 million of national forest timber under contract, and "no significant loss overall would result" if this timber were to be harvested and converted with lower priced logs, "as is the normal practice."

To allow the termination of a contract because the bidder decides at a later date the contact is unprofitable is setting an undesirable precedent; a precedent that would encourage contractors in all lines of business dealing with the government, to request relief from the consequences of their own errors.

We have been told that timber selling for $250 to $300 per MBF cannot be harvested and processed at a profit. But western timber purchasers are currently bidding timber prices to these levels. Timber sales with contract terms of 24 to 36 months are currently receiving bids of 250 percent to 2,000 percent overbid. High bid rates of $250 to $350 per MBF are becoming more and more common. In the South, we cannot see the difference between bidding $300 per MBF in March of 1983, for a timber sale which will terminate within 24 months from harvesting a $300 per MBF timber sale purchased in 1981 or before, which will terminate within the same time frame. We would like to submit a number of Forest Service "Report of Timber Sale" forms to substantiate these figures. It would appear we are experiencing another upward spiral of bid rates in the Northwest.

Also attached to this statement is a bar graph which illustrates the volume of federal timber under contract for the west side of Forest Service Region 6. The graph, published by the National Forest Products Association, shows that 60 percent of the volume under contract is within the rates currently being bid on national forest timber. It should be noted that 4.88 billion board feet of this timber is under $200.00 per MBF, which is approximately a two year supply for this area.

Another consideration is the lumber manufacturers in the West and other regions who have refused to bid these high prices. It is our understanding that some of these mills have shut down or curtailed their operations at considerable loss rather than pay these unrealistic timber prices. No one has discussed compensation for these companies.

We have not submitted a relief proposal because we, in the South, are not asking for relief. The SLMA has repeatedly reminded our western counterparts that we remain ready and willing to review any additional proposals they may wish to make, and to date no compromise proposal has been offered. While we are not prepared to offer a proposal for timber contract relief we would like to offer some suggestions for consideration in preventing a recurrence of the present situation.

It is our opinion that many of the problems being experienced by the western industry are due to the timber sale practices and proceduces in the Northwest. Oral bidding, selling timber on a scaled basis, the scaling practices and procedures used, and long contract periods have accounted for much of the high prices, skewed bidding, and extreme differences between log scale and lumber tally. It would seem that requiring sealed bids on all sales, requiring sales to be "lump sum", and reducing the length of contract terms to 36 months or less would greatly reduce the opportunity of this situation recurring. Several regions experience deficit sales because of the high cost of road building and other required sale improvements. Requiring the Forest Service to build its own permanent roads in these areas would eliminate many of these deficit sales. Purchasers would have to build only those temporary roads needed to harvest the sale area.

It is our hope that an equitable solution to this problem can be found for those firms who are in need, but the members of the SLMA do not believe that contract termination is that solution. We emphasize that the solution should make "need" the primary criteria for receiving relief but not give any one region a competitive advantage over another.

Mr. Chairman, I thank you for the opportunity to present these views of the members of the Southeastern Lumber Manufacturers Association, and I will be glad to answer any questions you may have.

Timber Purchase Commitments

L-P, like most other companies in the forest products industry, purchases a significant volume of timber under cutting contracts with the U.S. Forest Service and to a lesser degree, other government agencies. These contracts are generally for terms of 2 to 5 years and, consequently, the industry has a significant volume of timber under contract that was bid during 1978-79 when building product prices were much higher than today. Many of these contracts are uneconomical to harvest under current market conditions. L-P's policy on bidding timber sales has always been conservative. As a result, we don't believe that L-P has significant exposure for uneconomical timber purchase commitments (see Operations Review, page 5).

Costs And Expenses

The good news for 1982 is that L-P's cost of logs, which is the single most significant item in building products expenses, declined sharply during the year. A combination of factors caused the decrease. First and most significant for the future is an overall reduction in stumpage costs for contracts bid recently. Secondly, in the current economic climate, many log producers are willing to give up part of their profit margin or their fixed cost coverage rather than have their equipment idle. Another factor contributing to lower log costs is that during 1982, L-P filled a greater portion of its timber needs from its lower priced fee owned lands. L-P's log sources for the last five years are as follows:

Year Ended December 31	1982	1981	1980	1979	1978
Fee owned lands	25%	20%	18%	15%	18%
Private cutting contracts	12	15	18	21	21
Government contracts	24	32	36	39	36
Purchased logs	39	33	28	25	25
	100%	100%	100%	100%	100%

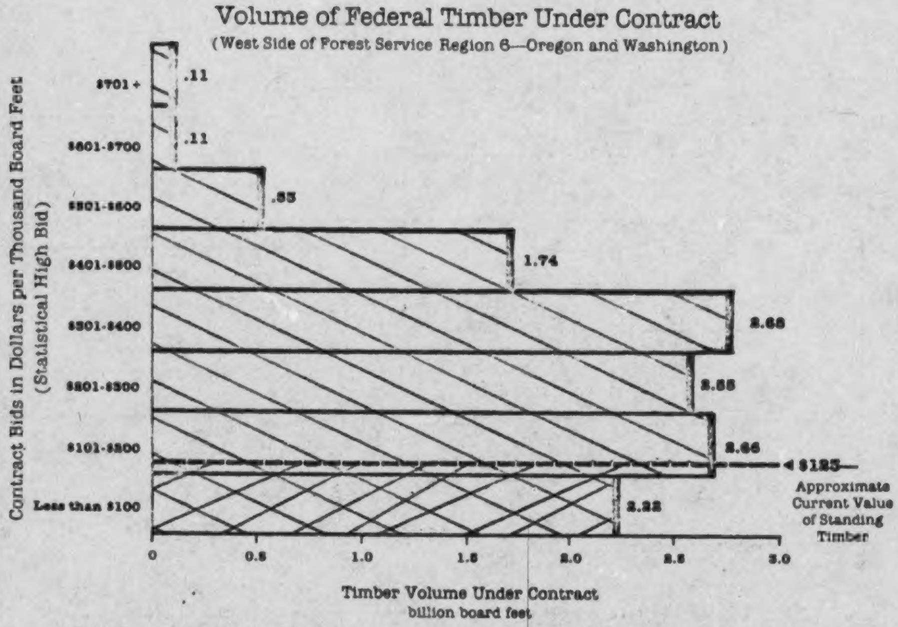
As shown in the table above approximately 24 to 39 percent of L-P's logs come from government cutting contracts primarily with the U.S. Forest Service. L-P has about $280 million total commitment under these contracts which are generally for terms of 2 to 5 years and most expire by 1988. L-P has neither the capability nor intention of harvesting all the contracts immediately. But even assuming under current depressed market conditions that they were harvested and converted together with logs from other sources, as is normal practice, no significant loss overall would result.

April, 1983

Forest Industry Position

S. 916

Federal Timber Contract Revision Legislation


Volume of Federal Timber Under Contract

(West Side of Forest Service Region 6—Oregon and Washington)

The volume of federal timber under contract as of Dec. 31, 1982, is causing a particular problem on the West side of Forest Service Region 6 (Oregon and Washington). Stumpage prices for approximately 9.7 billion board feet of timber under contract are at levels that greatly exceed the current market value of standing timber. This timber cannot be harvested economically in today's market or anticipated future markets..

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2190)

COST PER THOUSAND BOARD FEET
LOGGING - 121.61 ROADS - 14.61

REGION 0 5	FOREST Lassen 0 6	DISTRICT (OR AREA) 5 3		SALE NUMBER 0 0 6	QTR.-FY 4 - 8 2
STATE 0 6	COUNTY 0 8 9	SALE NAME Wilcox			COMPARTMENT
ACRES IN SALE 4,357		LEGAL DESCRIPTION T32, 33, 34N., R4E., M.D.M.			
BID DATE 12/ 06/ 82/	STATUS 1	SBA SET-ASIDE N	APP. BASE PERIOD 2 - 8 2		ZONE 1
SALVAGE N	PRICING METHOD 3	PLAN'D SAD COL $ 12,424	TERM. DATE 03/ 31/ 87/		CONTRACT DATE / / /
CONT. NO. 051580	CONTRACT FORM 2400 6	CONTRACTING OFFICER S	METHOD OF SALE A		REG. METHOD 6

SPECIES	SPEC CODE	PROD UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP-JP	150	1-1	8,860	10.00	52.89	69.73	52.33	10.00	10.00	10.00	10.00	10.00	10.00	overbid =		697%	
SP	117	1-1	1,710	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00				
WF	025	1-1	6,910	10.00	242.77	259.62	259.50	10.00	10.00	10.00	10.00	10.00	10.00	overbid =		2596%	
DF	205	1-1	150	10.00	242.77	259.62	259.50	10.00	10.00	10.00	10.00	10.00	10.00	overbid =		2596%	
IC	081	1-1	730	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00				
TOTAL/AVER.		1	18,360	10.00	120.20	134.81											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	CERTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Fibreboard Corp. L-P	L		2,475,125.00
2	Roseburg Lumber	L		2,474,013.80
3	Fletcher Forest Products	S		183,600.00
4	Paul Bunyan Lumber	S		183,600.00
5	Robert Liles	S		183,600.00
6	Sierra Pacific Industries	L		183,600.00
7	Susanville Forest Product	L		183,600.00
8	Diamond International	L		183,600.00
9				
10				
11				
12				

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Fred C. Owens
Title Resource Officer
Date 12/7/82

REMARKS

Percent By Log Grade

	1	2	3	4	5
PP JP	1.45	7.30	13.38	-	77.87
SP	-	8.41	14.94	-	76.65
WF	2.24	6.13	91.63		-
DF	14.90	13.10	18.20	51.80	-

CL-4

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

COST PER THOUSAND BOARD FEET

LOGGING - 113.30 ROADS - 8.57

REGION 0 5	FOREST Plumas 1 1	DISTRICT (OR AREA) 5 5	SALE NUMBER 0 0 6		OTH. FY 1 -8 3
STATE 0 6	COUNTY 0 6 3	SALE NAME Harwood Timber Sale			COMPARTMENT 0
ACRES IN SALE 1,879		LEGAL DESCRIPTION T 27 N R 13 E			
BID DATE 01/ 05/ 83/	STATUS 1	SBA SET ASIDE N	APP. BASE PERIOD 2 - 8 ?		ZONE 2
SALVAGE N	PRICING METHOD 3	PLANNED SALE COL. $ 301,116.00	TERM. DATE 03/ 31/ 85/		CONTRACT DATE 01 /25 / 83/
CONT. NO. 053837	CONTRACT FORM 2400- 6	CONTRACTING OFFICER 5	METHOD OF SALE A		REG. INCENTIVE 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP	122	1-1	10,350	11.40	153.71	161.98	168.94	85.42	11.40	11.40	overbid		= 1413 %				
SP	117	1-1	Rec.	10.00	1.73	10.00	10.00	10.00	10.00	10.00							
WF	015	1-1	430	10.00	211.80	220.07	147.41	74.56	11.40	11.40	overbid		= 2201 %				
DF	295	1-1	120	11.40	319.17	327.44	168.93	85.45	11.40	11.40	overbid		= 2857 %				
IC	081	1-1	200	11.40	319.17	327.44	168.93	85.45	11.40	11.40	overbid		= 2857 %				
LP	108	1-1	Nom.	1.00	1.00	1.00	1.00	1.00	1.00	1.00							
					1,784,196.90												
TOTAL/AVER.		1-1	11,100	11.40	169.73	169.00											

SUMMARY OF BIDDERS

RANK	NAME	SMALL BUS.	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
1	Susanville Forest Product	L		1,875,903.90
2	Sierra Pacific Industries	L		1,865,272.90
3	Nevada Skylines	N		943,501.80
4	Siller Brothers	S		126,578.00
5	Louisiana Pacific Ind.	L		126,578.00
6				
7				
8				
9				
10				
11				
12				

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Tina Loa

TITLE Resource Clerk DATE 1/10/83

REMARKS

[illegible]

DISTRIBUTION: Orig. and 1cc to RO (orig. to RO), 1cc to RO of SBA

2400-17

3

FOREST SERVICE

(66)

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(Reference FSM 2430, Report FS 2400-A)

COST PER THOUSAND BOARD FEET
LOGGING 123.32 ROADS - 7.53

REGION 0 5	FOREST Stanislaus 1 6	DISTRICT NO. AREA Groveland 5 4		SALE NUMBER 0 0 6	2 - B 3
STATE 0 6	COUNTY 1 0 9	SALE NAME Mather			
ACRES IN SALE 1,350		LEGAL DESCRIPTION T.1S., R.19E., M.D.M.			COMPARTMENT 0
BID DATE 01 / 07 / 83	STATUS 4	SBA SET ASIDE N	APP. BASE PERIOD 3 - 8 2		ZONE 1
ADVANCE N	PRICING METHOD 3	PLAN OR SAR COL. $ 241,110	TERM DATE 03/ 31 / 87 /		CONTRACT DATE / / /
CONT. NO. 051422	CONTRACT FORM 2400 6	CONTRACTING OFFICER S	METHOD OF SALE A		6

SPECIES	SPP. CODE		VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP	122	11	10,800	12.52	104.23	111.76	161.00	118.10	109.10	13.00	12.52	12.52	overbid = 893%				D
SP	117	11	650	12.52	303.95	311.48	161.00	118.10	109.10	13.00	12.52	12.52	overbid = 2488%				
WF	015	11	270	12.52	303.95	311.48	161.00	118.10	109.10	13.00	12.52	12.52	overbid = 2488%				
DF	202	11	10	12.52	303.95	311.48	161.00	118.10	109.10	13.00	12.52	12.52	overbid = 2488%				
IC	081	11	2,720	12.52	303.95	311.48	161.00	118.10	109.10	13.00	12.52	12.52	overbid = 2488%				
TOTAL/AVER.		11	14,550	12.52	154.47	162.00											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH	Fibreboard Corporation L-P	L		2,357,100.00
2	Wetsel-Oviatt	S		2,342,550.00
3	Bartell Press	N		1,718,355.00
4	Siller Bros.	S		1,557,405.00
5	Crook & Ogle	N		189,150.00
6	Snider Lumber Co.	S		182,166.00
7	Hatler Lumber Co.	S		182,166.00

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof.

(1)

SIGNATURE

TITLE Forestry - Sales Prep

DATE 1/11/83

REMARKS

Award pending EEO Complaince Review and execution of Non-substitution forms 2400-44 and 2400-45.

7

USDA - FO ERVICE

REPORT OF ER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSH 2400)

COST PER THOUSAND BOARD FEET -
LOGGING - 155.22 ROADS - .00

REGION 0 6
STATE 4 1
ACRES IN SALE 220
FOREST Mt. Hood 0 6
COUNTY Clackamas 0 0 5
DISTRICT (OR AREA) Estacada 0 5
SALE NUMBER 2 1
SALE NAME SANDY
LEGAL DISCRIPTION T7S,R6E,S4,5
QTR.-FY 2 - 8 3
COMPARTMENT 5 5 0 3
BID DATE MO. 01/ DAY 25/ YR. 83/
SALVAGE N
CONT. NO. 068195
STATUS 4
PRICING METHOD 1
CONTRACT FORM 2400 6
SBA SET-ASIDE N
PLAN'D SAD COL $ 25,082
CONTRACTING OFFICER S
APP. BASE PERIOD 3 - 8 2
TERM. DATE 03 / 31 / 84/
METHOD OF SALE A
ZONE 2
CONTRACT DATE __/__/__/
REG. 3ICF REF 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	2,500	10.00	225.00	225.00	224.00	210.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
H&O	263	1-1	300	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
*PAM	002	4-1	300	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
TOTAL/AVER.		1	3,100	8.69	182.08	182.08											

Overbid: 2250%

13. Avison Timber Co. S $ 26,950 .00

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Columbia Vista	S		564,450.00
2	Crown Zellerbach	L		561,950.00
3	Stevenson Co.-Ply.	S		526,950.00
4	Ft. Vancouver Ply.	S		26,950.00
5	Bald Knob Land & Tbr.	S		26,950.00
6	Brazier For. Pr. I., Inc.	S		26,950.00
7	Publishers Paper Co.	L		26,950.00
8	Multnomah Plywood	S		26,950.00
9	Vanport Mfg., Inc.	S		26,950.00
10	Cedar Lumber Co.	S		26,950.00
11	Boise Cascade Corp.	L		26,950.00
12	Linnton Ply.	S		26,950.00

DISTRIBUTION: Orig. and 1cc to RO (incl. to WO), 1cc to RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Paul A. Foy

TITLE Resource Tech.

DATE 01/26/83

REMARKS *PAM sold at the rate of $1.18 for 127 acres per M figures for statistical purposes only.

Species	Vol.	Log Grade % 2S	3S	2P	3P	SP
D	2500	55	13	1	19	12
H	130	26	74			
NF	5	74	26			
C	160	5	95			
WP	5	59	41			

Pending 44 and 45

R6 Interim 2400-17 (9/81)

T. M. FILE COPY

5

FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS

COST PER THOUSAND BOARD FEET
LOGGING - 120.38 ROADS - 12.60

0 6 5 3	Forest: Gifford Pinchot 0 3 0 5 9	Wind River 0 8 LYNX	Sale Number: 0 2 2
608	County: Skamania	Legal Description: T.5N., R8E., W.M.U.	2 - 8 1
01 / 27 / 83 /	Status: ** 4	N	Compartment: 8 4 0 5
N	1	147,766	3 - 8 2
07104-4	Contract Form: 6	Contracting Officer: S	03 / 31 / 88 /
		A	Zone: 2
			Contract Date: / / /
			6

Species	Spec Code	Prod Unit	Volume	Advertised Rates $	Stat. High Bid $	High Bidder $	2nd High Bidder $	3rd High Bidder $	4th High Bidder $	5th High Bidder $	6th High Bidder $	7th High Bidder $	8th High Bidder $	9th High Bidder $	10th High Bidder $	11th High Bidder $	12th High Bidder $
D	205	1-1	7,100	14.58	245.21	259.00	259.00	14.58	14.58	14.58	14.58	14.58	14.58	overbid =	1776%		
H60	263	1-1	4,600	10.55	206.21	220.00	219.00	10.55	10.55	10.55	10.55	10.55	10.55	overbid =	2085%		
*PAM	002	4-1	1,100	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50				
					(2,690,107.00)												
		1	12,800	11.92	210.16	222.77											

SUMMARY OF BIDDERS

	Name	SBA Class	Identification Number	Total Value of Bid
1	SDS Lumber Co.	S		2,851,450.00 ✓
2	Stevenson Co-Ply, Inc.	S		2,846,850.00 ✓
3	Bald Knob Land & Tbr	N		152,598.00 ✓
4	Columbia Vista Corp	S		152,598.00 ✓
5	Fort Vancouver Plywood	S		152,598.00 ✓
6	Vanport Mfg. Inc.	S		152,598.00 ✓
7	Wilsonville Tbr Co Ltd	N		152,598.00 ✓
8	WKO Tbr Ltd Partnership	N		152,598.00 ✓
9				
10				
11				
12				

Signature: Lowther Voss

Title: Resource Specialist

Date: 1-27-83

Remarks: USED NEW SALE PROCEDURES

SPECIES	1S	2S	3S	1P	3P	SP
D	--	41	37	--	8	14
H	--	25	75	--	--	--
NF	7	55	31	7	--	--
A	--	50	50	--	--	--
W	--	71	29	--	--	--
C	--	--	100	--	--	--
MH	--	--	100	--	--	--

*PAM sold at the rate of $1.94 per acre for 283 acres; per M figures for statistical purposes only

**Pending receipt of forms 2400-44 & 45 and EEO Compliance Review.

[illegible]

USDA FOREST SERVICE

(9) 6

REPORT OF TIMBER SALE
CONVENTIONAL AND NONCONVENTIONAL PRODUCTS

COST PER THOUSAND BOARD FEET
LOGGING - 110.45 ROADS - 6.26

REGION 0 6	FOREST Gifford Pinchot 0 3	DISTRICT (UNIT AREA) Mt. Adams 0 3	SALE NUMBER 0 2 1
STATE 5 3	COUNTY Skamania 0 5 9	SALE NAME SALTY	WITH FY 7 - 8
ACRES IN SALE 653		LEGAL DESCRIPTION T.7N.,R.10E.,W.M.U.	COMPARTMENT 3 6 0 7
BID DATE 01 / 27 / 83	STATUS **4	SBA SET ASIDE N	APP BASE PERIOD 3 - 8 2
SALVAGE N	PRICING METHOD 1	PLAN & SAB COL $ 188,235	TERM DATE 03 / 31 / 87
CONT. NO 06348-8	CONTRACT FORM 2400 6	CONTRACTING OFFICER S	METHOD OF SALE A
		ZONE 3	CONTRACT DATE / /
		REG DECISION 6 -	

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	6,800	16.26	205.09	212.00	216.00	154.00	16.26	16.26	16.26	16.26	16.26	16.26	16.26	overbid	= 1304%
C	242	1-1	700	96.62	89.71	96.62	96.62	96.62	96.62	96.62	96.62	96.62	96.62	96.62	96.62	overbid:	—
GF&O	017	1-1	4,100	12.55	165.09	172.00	163.00	51.00	12.55	12.55	12.55	12.55	12.55	12.55	12.55	overbid	= 1371%
*PAM	002	4-1	1,200	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50		
					(2,134,278.00)												
TOTAL/AVER		1	12,800	17.99	166.79	173.05											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
1	SDS Lumber Co.	S		2,215,034.00
2	WKO Tbr. Ltd.	N		2,205,334.00
3	Ben A. Thomas	S		1,324,534.00
4	Bald Knob Land & Tbr.	N		230,257.00
5	Columbia Vista	S		230,527.00
6	Fort Vancouver	S		230,257.00
7	Crown Zellerbach	L		230,257.00
8	Stevenson Co-Ply	S		230,257.00
9	Vanport Mfg.	S		230,257.00
10	Wilsonville Tbr. Co.	S		230,257.00
11				
12				

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof.

Signature Loretta Lowe

TITLE Resource Specialist

DATE 1/27/83

REMARKS USED NEW SALE PROCEDURES

SPECIES	1S	2S	3S	4S	5S	3P	SP
D	--	66	22	--	--	7	5
C	--	1	99	--	--	--	--
GF	--	33	67	--	--	--	--
H	--	25	75	--	--	--	--
P	--	3	49	42	6	--	--
WL	--	15	66	19	--	--	--
A	--	47	53	--	--	--	--
W	20	34	36	10	--	--	--
ES	--	14	71	15	--	--	--
NF	18	55	27	--	--	--	--
LP	--	--	--	100	--	--	--

*PAM sold at the rate of $1.53 per acre for 391 acres; Per M figures for statistical purposes only.

** Pending receipt of '44 & '45 ...

DISTRIBUTION: Orig and [illegible] to RO [illegible]

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7\.

USDA - FOREST SERVICE

(30)

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

COST PER THOUSAND BOARD FEET
LOGGING - 117.08 ROADS - 3.38

REGION 0 6
STATE 4 1
ACRES IN SALE 315
FOREST Siuslaw 1 2
COUNTY Douglas 0 1 9
DISTRICT (OR AREA) 0 2 Mapleton SALE NUMBER 0 3 0
SALE NAME Wassen Ranch
LEGAL DESCRIPTION S2&35,T21&20S,R10W,WM
QTR.-FY 2 - 8
COMPARTMENT 2 2 7

BID DATE 01/ 27/ 83/
SALVAGE N
CONT. NO. 071407
STATUS 1
PRICING METHOD 1
CONTRACT FORM 2400 6
SBA SET-ASIDE N
PLAN'D SAB COL. $ 74392
CONTRACTING OFFICER S
APP. BASE PERIOD 3 - 8 2
TERM. DATE 12/ 31/ 84/
METHOD OF SALE A
ZONE 2
CONTRACT DATE 02/ 08/ 8
REG. 36CFR321 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
DF	205	1-1	5400	92.05	223.72	228.00	228.00	205.50	92.05	92.05	92.05	92.05	92.05	92.05	overbid = 2459		
H	263	1-1	2000	7.02	7.02	8.00	7.02	7.02	7.02	7.02	7.02	7.02	7.02	7.02	overbid = 1149		
C&O	242	1-1	100	149.52	145.24	149.52	149.52	149.52	149.52	149.52	149.52	149.52	149.52	149.52			
*PAM	002	4-1	45	36.16	36.16	36.16	36.16	36.16	36.16	36.16	36.16	36.16	36.16	36.16			
TOTAL/AVER.		1	7545	69.94	164.12	167.50											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Bohemia, Inc.	L		1,263,779.20
2	Lone Rock Timber	S		1,261,819.20
3	Ken Rogge Lumber	S		1,140,319.20
4	The Murphy Company	S		527,689.20
5	North Side Lumber	S		527,689.20
6	Alsea Veneer	S		527,689.20
7	Tangfeldt Wood Products	S		527,689.20
8	Hampton Tree Farms	S		527,689.20
9	Hoskins Lumber	S		527,689.20
10				
11				
12				

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature AVALYNE J. STRODE

TITLE Supervisory Resource Specialist

DATE 01-31-83

REMARKS

	2S	3S	2P	3P
OG	34	21	34	11
SG	39	12		49
H	76	24		
C	61	39		

*"Per Acre Material sold at the rate of $12.42 per acre for 131 acres. Per M figures are fo statistical purposes only". Used New Sale Procedures

RA - 45M; DFU - 0; OG - 764M

Award Pending EEO Clearance

DISTRIBUTION: Orig. and 1cc to RO (orig. to WO), 1cc to RO of SBA

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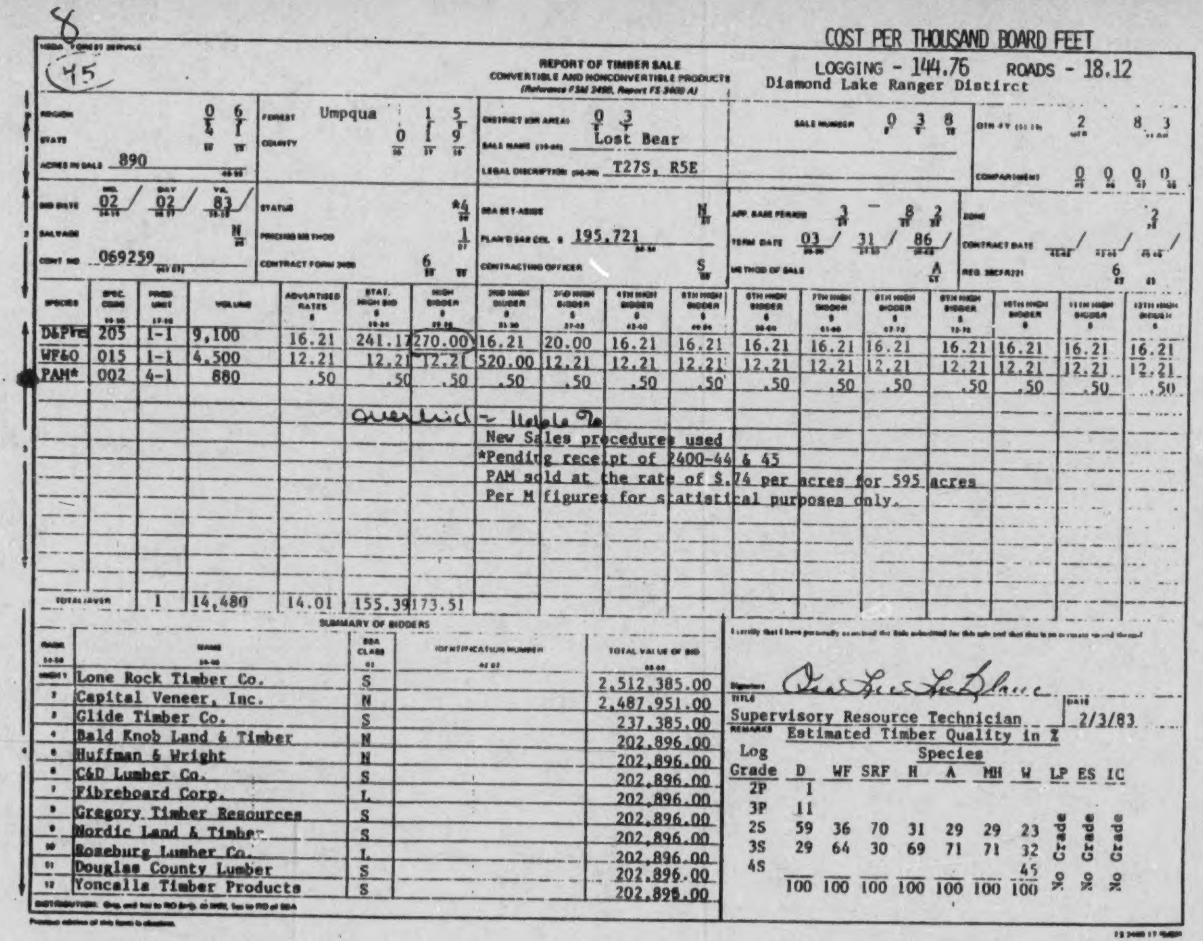
R5 Interim 2400-17 (9/



8

45

USDA FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(Reference FSM 2490, Report FS 2400 A)

COST PER THOUSAND BOARD FEET
LOGGING - 144.76 ROADS - 18.12
Diamond Lake Ranger Distirct

REGION 0 6
STATE 4 1
ACRES IN SALE 890
FOREST Umpqua 1 5
COUNTY 0 1 9
DISTRICT (OR AREA) 0 3
SALE NAME Lost Bear
LEGAL DESCRIPTION T27S, R5E
SALE NUMBER 0 3 8
QTR FY 2 8 3
COMPARTMENT 0 0 0 0
BID DATE 02 / 02 / 83 /
SALVAGE N
CONT NO 069259
STATUS *4
PRICING METHOD 1
CONTRACT FORM 2400 6
SBA SET-ASIDE N
PLAN'D BASE CEIL. $ 195,721
CONTRACTING OFFICER S
APP. BASE PERIOD 3 - 8 2
TERM DATE 03 / 31 / 86 /
METHOD OF SALE A
ZONE 2
CONTRACT DATE / / /
REG. 36CFR221 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D&Pte	205	1-1	9,100	16.21	241.17	270.00	16.21	20.00	16.21	16.21	16.21	16.21	16.21	16.21	16.21	16.21	16.21
WF&O	015	1-1	4,500	12.21	12.21	12.21	520.00	12.21	12.21	12.21	12.21	12.21	12.21	12.21	12.21	12.21	12.21
PAM*	002	4-1	880	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50
TOTAL/AVER		1	14,480	14.01	155.39	173.51											

overbid - 1666%

New Sales procedures used

*Pending receipt of 2400-44 & 45

PAM sold at the rate of $.74 per acres for 595 acres

Per M figures for statistical purposes only.

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Lone Rock Timber Co.	S		2,512,385.00
2	Capital Veneer, Inc.	N		2,487,951.00
3	Glide Timber Co.	S		237,385.00
4	Bald Knob Land & Timber	N		202,896.00
5	Huffman & Wright	N		202,896.00
6	C&D Lumber Co.	S		202,896.00
7	Fibreboard Corp.	L		202,896.00
8	Gregory Timber Resources	S		202,896.00
9	Nordic Land & Timber	S		202,896.00
10	Roseburg Lumber Co.	L		202,896.00
11	Douglas County Lumber	S		202,896.00
12	Yoncalla Timber Products	S		202,896.00

Signature

TITLE Supervisory Resource Technician

DATE 2/3/83

REMARKS Estimated Timber Quality in %

Log Grade	D	WF	SRF	H	A	MH	W	LP	ES	IC
2P	1							No Grade	No Grade	No Grade
3P	11									
2S	59	36	70	31	29	29	23			
3S	29	64	30	69	71	71	32			
4S							45			
	100	100	100	100	100	100	100			

9

USDA - FOREST SERVICE

(55)

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

COST PER THOUSAND BOARD FEET
LOGGING - 119.21 ROADS - .00

REGION 0 6
STATE 4 1
ACRES IN SALE 43
BID DATE MO. 02/ DAY 03/ YR. 83/
SALVAGE N
CONT. NO. 075378

FOREST 1 8
COUNTY 0 3 9
Size Class 6
STATUS 1
PRICING METHOD 1
CONTRACT FORM 2400 6 _

DISTRICT (OR AREA) 0 6
SALE NUMBER 0 7 3
SALE NAME Peter Pan
LEGAL DISCRIPTION T19S,R2E,S13WM
SBA SET-ASIDE I N
PLAN'D SAB COL $ 39,683.00
CONTRACTING OFFICER S

APP. BASE PERIOD 3 -8 2
TERM. DATE 09/ 30/ 83/
METHOD OF SALE A

QTR.-FY 2 QTR. - 8 YEAR
COMPARTMENT 6 0 0
ZONE 2
CONTRACT DATE 02/ 14/ 8
REG. 36CFR221 6 _

SPECIES	SPEC. CODE 14-16	PROD. UNIT 17-18	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $ 19-24	HIGH BIDDER $ 25-30	2ND HIGH BIDDER $ 31-36	3RD HIGH BIDDER $ 37-42	4TH HIGH BIDDER $ 43-48	5TH HIGH BIDDER $ 49-54	6TH HIGH BIDDER $ 55-60	7TH HIGH BIDDER $ 61-66	8TH HIGH BIDDER $ 67-72	9TH HIGH BIDDER $ 73-78	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	2400	46.95	274.00	274.00	273.00	225.00	60.00	50.00	50.00	50.00	46.95	46.95	46.95	46.95	46.9
C	242	1-1	200	103.34	103.34	103.34	103.34	103.34	103.34	103.34	103.34	103.34	103.34	103.34	103.34	103.34	103.3
H&O	263	1-1	300	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.3
*PAM	002	4-1	900	23.24	23.24	23.24	23.24	23.24	23.24	23.24	23.24	23.24	23.24	23.24	23.24	23.24	23.2
					(702,292.00)												
TOTAL/AVER.	1		3800	41.41	184.81	184.81											

Overbid = 584%

Additional Bidders:

13.	Rosboro Lumber Co.	S
14.	Southwest Forest Ind.	L
15.	Triangle Veneer	S
16.	Zip-O-Log Mills, Inc.	S

SUMMARY OF BIDDERS

RANK 14-16	NAME 16-40	SBA CLASS 41	IDENTIFICATION NUMBER 42-87	TOTAL VALUE OF BID 88-60
HIGH 1	Tangfeldt	S		702,292.00
2	Engle Construction	S		699,892.00
3	Majama	S		584,692.00
4	Lane Plywood	S		188,692.00
5	Bohemia	L		164,692.00
6	Cuddeback Lumber Co.	S		164,692.00
7	Yoncalla Timber Co.	S		164,692.00
8	Crawford Logging	S		157,372.00
9	C & N Timber	S		157,372.00
10	Ray & Jack Ladd	S		157,372.00
11	Murphy Company	S		157,372.00
12	Penn Timber, Inc.	L		157,372.00

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Barbara Bryan
TITLE Timber Sale Tech.
DATE 2-15-83

REMARKS Timber Quality Estimate in %

	2S	3S	3P	SP
Douglas-fir	39	13	46	2
Western redcedar	6	94		
Western hemlock	64	36		
Pacific silver fir	62	38		
Grand fir	25	75		

*PAM sold at the rate of $486.42 for 43 acres. Per M rates are for statistical purposes only.

10/

SBA

USDA - FOREST SERVICE

(61)

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

COST PER THOUSAND BOARD FEET
LOGGING - 110.65 ROADS - 0.00

REGION 0 5
STATE 0 6
ACRES IN SALE 2,166
BID DATE 02 / 07 / 83/
SALVAGE N
CONT. NO. 051648

FOREST Lassen 0 6
COUNTY 0 3 5
STATUS 9
PRICING METHOD 3
CONTRACT FORM 2400 6 T

DISTRICT (OR AREA) 5 8
SALE NUMBER 0 1 0
SALE NAME Grays Flat
LEGAL DESCRIPTION T31N & T32N, R7E, M.D.M.
SBA SET-ASIDE Y
PLAN'D SAR COL $ 145,692
CONTRACTING OFFICER S
APP. BASE PERIOD 3 -8 2
TERM. DATE 03/ 31/ 85/
METHOD OF SALE A

QTR.-FY 2 - 8 3
COMPARTMENT
ZONE 2
CONTRACT DATE 03/08/83
6

SPECIES	SPEC CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP-JP	150	1-1	8,030	19.30	273.89	273.89	273.77	254.96	233.17	221.83	193.82	20.00	19.35	19.30	19.30	19.30	19.30
WF	025	1-1	469	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
IP	103	1-1	1	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
TOTAL/AVER.		T	8,500	18.78	259.30	259.30											

overbid = 1419%

SUMMARY OF BIDDERS

RANK	NAME	SBA	CERTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Calander Pine Corp.	S		2,204,027.70
2	Almanor Forest Products	S		2,203,064.10
3	W.D. Logging	S		2,052,019.80
4	Paul Bunyan Lbr. Co.	S		1,877,046.10
5	Fletcher Forest Products	S		1,810,075.90
6	Hanan Bros., Inc.	S		1,561,065.60
7	Hi-Ridge Lumber Co.	S		165,291.00
8	Nevada Skylines, Inc.	S		160,071.50
9	North State Timber	S		159,670.00
10	Big Valley Lumber Co.	S		159,670.00
11	Calaran Lumber Co.	S		159,670.00
12	J. Truttman	S		159,670.00

DISTRIBUTION: Orig. and 1cc to RO (orig. to RO), 1cc to RO of SBA (Cont Next Page)

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature
TITLE Resource Officer
DATE 2/8/83

REMARKS

Percent By Log Grade

	1	2	3	4	5
PP-JP	2.1	6.1	14.5	-	77.3
WF	2.9	9.4	87.7		-

Award Pending EEO Compliance Review.

Page 1

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

~~ESTIMATED COST PER THOUSAND BOARD FEET~~
LOGGING - 90.31
ROADS - 1.41

REGION	0 6	FOREST Malheur	0 4	DISTRICT (OR AREA)	0 4 Prairie City
STATE	4 1	COUNTY Grant	0 2 3	SALE NUMBER	0 1 2
ACRES IN SALE	628	SIZE	7	SALE NAME	BEA
BID DATE	MO. 02/ DAY 09/ YR. 83/	STATUS	9	LEGAL DISCRIPTION	T.15S., R.35&36E.
SALVAGE	N	PRICING METHOD	3	SBA SET-ASIDE	N
CONT. NO.	064626	CONTRACT FORM 2400	6 –	PLAN'D SAB COL $	134,063
				CONTRACTING OFFICER	S

QTR.-FY	2 - 8 3 (QTR. - YEAR)	COMPARTMENT	6 4 0 9
APP. BASE PERIOD	3 - 8 2	ZONE	1
TERM. DATE	03/ 31/ [illegible]/	CONTRACT DATE	/ / /
METHOD OF SALE	A	REG. 36CFR221	6 –

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
P	122	1-1	10,900	70.52	188.29	190.00	186.00	155.10	70.52		Overbid : 269%						
D&O	204	1-1	700	6.00	6.00	6.00	6.00	6.00	6.00								
WL	070	1-1	500	6.00	6.00	6.00	6.00	6.00	6.00								
WF	015	1-1	800	1.00	1.00	1.00	1.00	1.00	1.00								
LP	108	1-1	300	1.00	1.00	1.00	1.00	1.00	1.00								
TOTAL/AVER.		1	13,200	58.86	156.11	157.52											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Ellingson Lbr. Co.	S		2,079,300.00
2	Prairie Wood Prod.	S		2,035,700.00
3	Edw. Hines Lbr Co.	L		1,698,890.00
4	Ochoco Lbr. Co.	S		776,968.00
5				
6				
7				
8				
9				
10				
11				
12				

DISTRIBUTION: Orig. and 1cc to RO (orig. to WO), 1cc to RO of SBA

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof.

Signature Rw

TITLE Resource Tech

DATE 2/9/83

REMARKS

DPM Ex. Vol. 0

Log Grade %

Species	1	2	3	4	5
P	-	5.0	15.4	-	79.6
DF	-	6.7	93.3	-	-
WL	-	-	64.9	35.1	-
WF	-	-	-	100.0	-

(Award Pending EEO Compliance Review)

R6 In[illegible] (3/81)

15

SBA

USDA - FOREST SERVICE

12

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

REGION 0 6	FOREST Rogue River	DISTRICT (OR AREA) Prospect 0 5	SALE NUMBER 0 1 1	QTR.-FY 2 - 83
STATE 4 1	COUNTY Jackson 0 2 9	SALE NAME HIGHWAY		COMPARTMENT 0
ACRES IN SALE 174	1 0	LEGAL DISCRIPTION T31SR3ES33T32SR3ES4,9WM		
BID DATE 02/ 15/ 83/	STATUS 4	SBA SET-ASIDE N	APP. BASE PERIOD 3 - 8 2	ZONE 2
SALVAGE N	PRICING METHOD 1	PLAN'D S&B COL $ 81370	TERM. DATE 11/ 30/ 83	CONTRACT DATE / /
CONT. NO. 066169	CONTRACT FORM 2400 6	CONTRACTING OFFICER S	METHOD OF SALE A	REG. 36CFR223 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	2,160	41.48	286.00	286.00	285.00	240.00	50.00	50.00	41.48	41.48	41.48	41.48	41.48	41.48	41.4
P,SP	122	1-1	360	108.50	108.50	108.50	108.50	108.50	108.50	108.50	108.50	108.50	108.50	108.50	108.50	108.50	108.50
H&O	263	1-1	40	28.35	28.35	28.35	28.35	28.35	28.35	28.35	28.35	28.35	28.35	28.35	28.35	28.35	28.35
*PAM	002	4-1	120	16.47	16.47	16.47	16.47	16.47	16.47	16.47	16.47	16.47	16.47	16.47	16.47	16.47	16.47
						13th,	14th and 15th	bidder	same as	12th.							
TOTAL/AVER.		1	2,680	49.17	246.24	246.24											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Southwest For. Ind., Inc.	L		659,930.40
2	Medco Timber Co.	L		657,770.40
3	Boise Cascade Corp.	L		560,570.40
4	GMW Logging	N		150,170.40
5	J. W. Taylor	N		150,170.40
6	Croman Corp.	S		131,767.20
7	Double Dee Lbr. Co.	S		131,767.20
8	Gregory Tbr. Res., Inc.	S		131,767.20
9	Tony Klimek	N		131,767.20
10	Kogap Mfg. Co.	S		131,767.20
11	Robert H. Liles	N		131,767.20
12	Mountain Fir Lbr. Co.	S		131,767.20
13	R & S Logging	N		131,767.20
14	Spalding & Son, Inc.	S		131,767.20
15	Gall Willey Logging	N		131,767.20

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Janet L. Roberts

TITLE Resource Assistant

DATE

REMARKS

	2S	3S	3P	SP	Total
D	69	15	12	4	100
WF	42	58	-	-	100
H	11	89	-	-	100

	1	2	3	5	Total
SP	2	11	16	71	100
P	1	1	8	90	100

*PAM actually sold at the rate of $11.36 per acre for 174 acres; Per-M figures for statistical purposes only.

13

USDA - FOREST SERVICE

(4E.

REPORT OF TIMBER SALE

CONVERTIBLE AND NONCONVERTIBLE PRODUCTS

(REF. FSM 2490)

COST PER THOUSAND BOARD FEET

LOGGING - 152.17 ROADS - 3.93

REGION 0 6
STATE 4 1
ACRES IN SALE 106
BID DATE 02/ 18/ 83
SALVAGE N
CONT. NO. 075436

FOREST Willamette 1 8
COUNTY 0 3 9
Size Class 7
STATUS 9
PRICING METHOD L
CONTRACT FORM 2400 6 .

DISTRICT (OR AREA) 0 5 (R1g)
SALE NUMBER 0 8 2
SALE NAME Beard
LEGAL DISCRIPTION T24&25S,R3E,W.M.
SBA SET-ASIDE I N
PLAN'D SAB COL $ 108,367
CONTRACTING OFFICER S

UTN.-CY 2 - 8 3
COMPARTMENT 5 1 1.1
APP. BASE PERIOD 3 - 8 2
TERM. DATE 09/ 30/ 84/
METHOD OF SALE A
ZONE 2
CONTRACT DATE / / /
REG. 36CFR221 6 -

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	3700	19.90	254.77	263.05	263.00	211.00	50.00	50.00	19.90	19.90	19.90	19.90	19.90	[illegible]	=1322
H	263	1-1	1600	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90		
C&W	242	1-1	100	14.05	14.05	14.05	14.05	14.05	14.05	14.05	14.05	14.05	14.05	14.05	14.05		
GF&O	017	1-1	500	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90	15.90		
*PAM	002	4-1	1900	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50		
					(978,394)												
TOTAL/AVER.		1	7800	14.02	125.44	129.36											

11. Southwest Forest $109,375.00

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Roseburg Lumber Co.	L		1,009,030.00
2	Capital Veneer	N		1,008,845.00
3	Penn Timber	L		816,445.00
4	Murphy Company	S		220,745.00
5	Rosboro Lumber Co.	S		220,745.00
6	Bohemia	L		109,375.00
7	C&N Timber	S		109,375.00
8	Cuddeback Lumber Co.	S		109,375.00
9	Lane Plywood, Inc,	S		109,375.00
10	Lone Rock Timber	S		109,375.00
11				
12				

*Per acre material sold at the rate of $8.9 per acre for 106 acres. Per

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof.

Signature Dorris R. Kelsey

TITLE Resource Specialist

DATE 3/2/83

REMARKS

Timber Quality Estimate in %

	SP	3P	1S	2S	3S	4S
DF	2	29		52	17	
H				47	53	
GF				33	67	
NF			8	59	33	
A				10	90	
IC					100	
C					100	

(1C) 14
File Copy

USDA - FOREST SERVICE
[illegible] 3,601,787 —

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

COST PER THOUSAND BOARD FEET
LOGGING - 127.47 ROADS - .86

REGION 0 6
STATE 4 1
ACRES IN SALE 290
BID DATE 02/ 22/ 83/
SALVAGE N
CONT. NO. 068245

FOREST Mt. Hood 0 6
COUNTY Clackamas 0 0 5
STATUS 9
PRICING METHOD 1
CONTRACT FORM 2400 6

DISTRICT (OR AREA) Estacada 0 5
SALE NUMBER 2 6
SALE NAME SUNNY
LEGAL DISCRIPTION T5S, R4E, Sec 13
SBA SET-ASIDE N
PLAN'D SAB COL $ 92,000
CONTRACTING OFFICER S

QTR.-FY 2 - 8 3
COMPARTMENT 5 3 0 3
APP. BASE PERIOD 3 - 8 2
TERM. DATE 03/ 31 / 86/
METHOD OF SALE A
ZONE 2
CONTRACT DATE _/_/_/
REG. 36CFR221 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	11,300	39.09	315.75	317.00	316.00	40.00	39.09	39.09	39.09	39.09	39.09	39.09	39.09	39.09	39.09
HNO	263	1-1	2,700	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
*PAM	002	4-1	2,380	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40	7.40
						Overbid = 811%											
										13.	Linnton	Plywood	Corp.	S	$475,	529.00	
TOTAL/AVER.		1	16,380	29.03	219.89	220.75											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Crown Zellerbach Corp.	L	[illegible]	3,615,912.00
2	Avison Timber Co.	S		3,604,612.00
3	Brazier For. Prod.,Inc.	S		485,812.00
4	Wilsonville Timber Co.	S		475,529.00
5	Fort Vancouver Plywood	S		475,529.00
6	Stevenson Co. Plywood	S		475,529.00
7	Publishers Paper Co.	L		475,529.00
8	Vanport Mfg., Inc.	S		475,529.00
9	N.W. Wood/ Y & P	S		475,529.00
10	Fibrex and Shipping	N		475,529.00
11	Cedar Lumber Co.	S		475,529.00
12	Columbia Vista Corp.	S		475,529.00

DISTRIBUTION: Orig. and 1cc to RO (orig. to WO), 1cc to RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature

TITLE Resource Tech.

DATE 03/07/83

REMARKS

% Log Grade by Species

Species	MBF	1S	2S	3S	1P	2P	3P	SP
D	11,300	1	42	19	1	2	32	3
H	1,800		48	52				
C	550		9	91				
NF	350		32	39	29			

*PAM actually sold at $73.69 per acre for 239 acres per M figure for statistical purposes only.

Pending EEO and 44 & 45

R6 Interim 2400-17 (9/81)

REPORT OF [illegible] SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(R-6 FORM 2400)

COST PER THOUSAND BOARD FEET .
LOGGING - 132.55 ROADS - .00

REGION 0 6
STATE 4 1
ACRES IN SALE 50
BID DATE 03/ 7/83/
SALVAGE N
CONT. NO. 068237

FOREST NO. 0 6
COUNTY Clackamas 0 0 5
STATUS 4
PRICING METHOD 1
CONTRACT FORM 2400 6

DISTRICT OR AREA 0 3
SALE NAME PAC
LEGAL DESCRIPTION T6S, R6E, Sec 13,24
SALE NUMBER 2 5
SBA SET ASIDE N
PLAN D S&R COL $ 26,415
CONTRACTING OFFICER S

QTR.-FY 1 - 8 1
COMPARTMENT 1 2 0 1
APP. BASE PERIOD 3-8 2
TERM. DATE 03/31/84/
METHOD OF SALE A
ZONE 2
CONTRACT DATE / / /
REG. 36CFR223 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	2500	10.00	278.00	278.00	277.00	80.00	50.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
[illegible]	263	1-1	800	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00
PAM	002	4-1	700	.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
TOTAL AVER		1	4000	7.54	175.04	175.04											

Overbid = 2750 %

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Brazier For. Prod.,Inc.	S		700,150.00
2	Stevenson Co-Ply	S		697,650.00
3	Avison Tbr. Co.	S		205,150.00
4	Cedar Lumber Co.	S		130,150.00
5	Vanport Mfg.,Inc.	S		30,150.00
6	Crown Zellerbach	L		30,150.00
7	Publishers Paper Co.	L		30,150.00
8	Fibrex & Shipping	N		30,150.00
9	NW Wood / Y&M	S		30,150.00
10	Fort Vancouver Ply.	S		30,150.00
11	Columbia Vista Corp.	S		30,150.00
12	Wilsonville [illegible] Co.	N		30,150.00
13.	Linnton Plywood Corp.	S		$30,150.00
14.	Multnomah Plywood Corp	S		$30,150.00

DISTRIBUTION: [illegible] RO [illegible] RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Paula Arrowsmith
TITLE Resource Technician
DATE 3/7/83

REMARKS

Log Grades %

Species	Vol.	1S	2S	3S	3P	SP
D	2500		51	15	21	13
H	800	2	55	43		

* PAM sold at $7.00 per acre for 50 acres, per M figures for statistical purposes only.

Pending 44 & 45

File Copy

USDA - FO ERVICE

REPORT OF ER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

COST PER THOUSAND BOARD FEET
LOGGING - 130.29 ROADS - 9.20

REGION	0 6	FOREST Mt.Hood	0 6	DISTRICT (OR AREA) Clackamas	0 1
STATE	4 1	COUNTY Clackamas	0 0 5	SALE NAME ABE	SALE NUMBER 2 3
ACRES IN SALE	153			LEGAL DISCRIPTION T7S,R8E,S 18 & 19	QTR.-FY 2 - 8 3
					COMPARTMENT 1 2 0 7
BID DATE	02/ 22/ 83/	STATUS	4	SBA SET-ASIDE N	APP. BASE PERIOD 1 - 8 2
SALVAGE	N	PRICING METHOD	1	PLAN'D SAB COL $ 66,337	TERM. DATE 03/ 31/ 85/
CONT. NO.	068211	CONTRACT FORM 2400	6	CONTRACTING OFFICER S	METHOD OF SALE A
				ZONE 2	CONTRACT DATE / /
				REG. 30CFR331	6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	2000	25.73	225.45	242.00	241.00	213.00	191.00	160.00	65.00	50.00	26.00	26.00	25.73	25.73	25.73
H&O	263	1-1	700	21.73	21.73	21.73	21.73	21.73	21.73	21.73	21.73	21.73	21.73	21.73	21.73	21.73	21.73
PAM	002	4-1	900	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
TOTAL/AVER.		1	3600	18.64	129.60	138.79											

overbid = 941%

13.	Fort Vancouver Ply	S	$67,121.00
14.	CJD Frank Lumber	S	67,121.00
15.	Vanport Mfg.,Inc	S	67,121.00
16.	Crown Zellerbach	L	67,121.00
17.	Wilsonville Tbr. Co.	M	67,121.00

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Stevenson Co-Ply	S	[illegible]	499,661.00
2	Fibrex & Shipping	N		497,661.00
3	Multnomah Plywood	S		441,661.00
4	N.W.Wood/ Y&M	S		397,661.00
5	Don H. Pearson, Jr.	N		335,661.00
6	Freres Lumber Co.	S		145,661.00
7	Cedar Lumber, Inc.	S		115,661.00
8	Columbia Vista Corp.	S		67,661.00
9	Brazier For.Prod.,Inc.	S		67,661.00
10	Publishers Paper Co.	L		67,121.00
11	Linnton Plywood	S		67,121.00
12	Avison Timber Co.	S		67,121.00

DISTRIBUTION: Orig. and 1cc to RO (orig. to WO), 1cc to RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Paul Armstrong

TITLE Resource Technician

DATE 3/7/83

REMARKS

Log Grades %

Species	Vol/mbf	1S	2S	3S	3P	SP
D	2000		47	20	21	12
H	550	2	39	59		
C	100		5	95		
GF	50	3	52	45		

*PAM sold at rate of $5.92 per acre for 76 acres
per M figures for statistical purposes only.
Pending 44 & 45

R6 Interim 2400-17 (9/81)

17

USDA - FOREST SERVICE

(47)

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

COST PER THOUSAND BOARD FEET
LOGGING - 118.84 ROADS - 22.12

REGION 0 6
STATE 4 1
ACRES IN SALE 204
BID DATE MO. 02 / DAY 22 / YR. 83 /
SALVAGE N
CONT. NO. 072839

FOREST WILL 1 8
COUNTY 0 4 3
Size Class 7
STATUS 5
PRICING METHOD 1
CONTRACT FORM 2400 6

DISTRICT (OR AREA) 0 3 (SH)
SALE NUMBER 0 8 3
SALE NAME SQUAW THREE
LEGAL DISCRIPTION T14S., R5E., S7,8,16,17
SBA SET-ASIDE N
PLAN'D SAB COL $ 147,654
CONTRACTING OFFICER S

APP. USE PERIOD 1 - 8 2
TERM. DATE 03/ 31/ 87/
METHOD OF SALE A

QTR. F 2 - 8 3
COMPARTMENT 3 3 1 1
ZONE 2
CONTRACT DATE _/_/_/
REG. INCREM 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	6200	66.18	232.27	265.25	265.00	66.18	66.18	66.18	66.18	overbid = 401%					
C&W	242	1-1	1500	110.87	77.89	110.87	110.87	110.87	110.87	110.87	110.87						
H&O	263	1-1	1700	13.56	13.56	13.56	13.56	13.56	13.56	13.56	13.56						
*PAM	002	4-1	2600	4.94	0.50	4.94	4.94	4.94	4.94	4.94	4.94						
					($1,581,261.00)												
TOTAL/AVER.		T	12,000	51.04	131.73	153.90											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Willamette Ind., Inc.	L		1,846,751.00
2	Capital Veneer	N		1,845,201.00
3	NW Wood/Y&M	N		612,517.00
4	Clear Lbr. Co.	S		612,517.00
5	Hi-Grade Logging	N		612,517.00
6	Linn Tbr.	S		612,517.00
7				
8				
9				
10				
11				
12				

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof.

Signature Dorris R. Kelsey

TITLE Resource Specialist

DATE 2-24-83

REMARKS

TIMBER QUALITY ESTIMATE IN %

	1S	2S	3S	4S	2P	3P	SP
D		39	18		5	35	3
C		17	83				
W	49		33	18			
H	1	34	65				
A	4	46	50				
WF		89	11				
NF		61	39				

*PAM sold at the rate of $62.96/acre for 204 acres; Per M rates are for statistical purposes only.
Sale under appeal pending RF's decision on Request

7

USDA - FOREST SERVICE

i8

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

COST PER THOUSAND BOARD FEET
LOGGING - 88.60 ROADS - .00

REGION 06	FOREST Winema 20	DISTRICT (OR AREA) Chiloquin 02 — SALE NUMBER 010	QTR.-FY 2 - 83
STATE 4L	COUNTY 035	SALE NAME Agency	COMPARTMENT 2122
ACRES IN SALE 1071	Size Class 7	LEGAL DISCRIPTION T33S, R7E, W.M.	
BID DATE 02/24/83	STATUS 9	SBA SET-ASIDE N — APP. BASE PERIOD 3-8 2	ZONE 1
SALVAGE N	PRICING METHOD 3	PLAN'D SAB COL $ 130.269 — TERM. DATE 03/31/85	CONTRACT DATE / /
CONT. NO. 061291	CONTRACT FORM 2400 6	CONTRACTING OFFICER S — METHOD OF SALE A	REG. 36CFR223 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
P,SP	122	1-1	6100	68.53	230.00	230.00	229.05	215.00	165.00	69.00	68.53	68.53	68.53	68.53	Overbid : 336%		
WF&O	015	1-1	600	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00			
TOTAL/AVER		1	6700	62.48	209.49	209.49											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Weyerhaeuser Co.	L		1,403,600.00
2	Boise Cascade Corp.	L		1,397,805.00
3	DG Shelter Prod.	L		1,312,100.00
4	Double Dee Lumber Co.	S		1,007,100.00
5	Modoc Lumber Co.	S		421,500.00
6	Roseburg Lumber Co.	L		418,633.00
7	Gregory Timber Resources	S		418,633.00
8	Thomas Lumber Co.	L		418,633.00
9	Croman Corporation	S		418,633.00
10				
11				
12				

DISTRIBUTION: Orig. and 1cc to RO (orig. to WO), 1cc to RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature

TITLE Timber Resource Assistant DATE 2/24/83

REMARKS New Sale Procedure Used

% Volume by Log Grades

Species	#1	#2	#3	#4	#5
ponderosa	2.9	1.6	2.5	0.0	93.0
white fir	-	-	38.6	61.4	-
sugar pine	-	5.4	2.2	-	92.5
Douglas-fir	19.7	45.8	34.5	-	-

Award withheld pending EEO Compliance Review.
Verbal compliance given 2/25/83.

R6 Interim 2400-17 (9/81)

USDA - FOREST SERVICE

(I.C. 19

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSH 2490)

COST PER THOUSAND BOARD FEET
LOGGING - 102.85 ROADS - 15.32

REGION 0 5
STATE 0 6
ACRES IN SALE 2,160
BID DATE 02/ 28/ 83/
SALVAGE N
CONT. NO. 051689

FOREST Lassen 0 6
COUNTY 0 3 5
STATUS 9
PRICING METHOD 3
CONTRACT FORM 2400 - 6

DISTRICT (OR AREA) 5 8
SALE NAME Barrel
LEGAL DESCRIPTION T29N, R8&9E; T30N, R8E. M.D.M.
SALE NUMBER 0 1 1
SBA SET-ASIDE Y
PLAN'D SAR COL $ 36,705
CONTRACTING OFFICER S
APP. BASE PERIOD 3 - 8 2
TERM. DATE 03 / 31 / 87/
METHOD OF SALE A

QTR. FY 2 - 8 3
COMPARTMENT
ZONE 2
CONTRACT DATE / /
REG. METHOD 6

SPECIES	SPEC CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP-JP	150	1-1	3,170	10.00	174.48	190.22	190.78	151.12	139.38	100.77	26.19	10.00	10.00	10.00	10.00	overbid = 1[illegible]	
SP	117	1-1	4,300	10.00	277.34	293.08	293.02	232.10	214.07	154.76	40.23	10.00	10.00	10.00	10.00	overbid = 29[illegible]	
WF	025	1-1	8,770	10.00	59.26	75.00	74.71	59.17	54.58	39.46	10.26	10.00	10.00	10.00	10.00	overbid = 750	
IC	081	1-1	400	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00		
LP	108	1-1	40	1.00	1.00	1.00	1.00	1.03	1.00	1.00	1.00	1.00	1.00	1.00	1.00		
TOTAL/AVER.		1	16,680	9.98	136.06	151.38											

SUMMARY OF BIDDERS

RANK	NAME	SBA	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Big Valley Lumber Co., Inc	S		2,525,031.40
2	Almanor Forest Products	S		2,524,005.30
3	Paul Bunyan Lumber Co.	S		2,000,041.30
4	J. Truttman	S		1,845,042.20
5	Siller Bros.	S		1,335,013.10
6	Pine Mtn.	S		350,031.50
7	Erickson Lumber	S		166,466.40
8	Little Valley Forest	S		166,466.40
9	Ken Fletcher	S		166,466.40
10	Bill Rice	S		166,466.40
11				
12				

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Freda C Owens
TITLE Resource Officer
DATE 3-8-83

REMARKS

Percent By Log Grade

	1	2	3	4	5
PP-JP	3.7	12.3	13.7	-	70.3
SP	2.1	7.9	16.4	-	73.6
WF	3.7	21.0	75.3		-

DISTRIBUTION: Orig. and 1cc to RO (orig. to SBA), 1cc to RO of SBA

(6)

70

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

COST PER THOUSAND BOARD FEET
LOGGING - 104-91
ROADS - 2.06

REGION 0 6
STATE 4 1
ACRES IN SALE 823

FOREST WINEMA 2 0
COUNTY 0 3 5
Size Class 7

DISTRICT (OR AREA) CHEMULT 0 1
SALE NUMBER 0 1 1
SALE NAME SOUTH JACKSON
LEGAL DISCRIPTION T30S, R11E

QTR.-FY [illegible]
COMPARTMENT 1 5 1 4

BID DATE MO 03/ DAY 03/ YR 83
SALVAGE N
CONT. NO. 061309

STATUS 9
PRICING METHOD 3
CONTRACT FORM 2400 6

SBA SET-ASIDE N
PLAN'D SAB COL $ 349559
CONTRACTING OFFICER S

APP. BASE PERIOD 3-8 2
TERM. DATE 03/ 31/ 85/
METHOD OF SALE A

ZONE
CONTRACT DATE / /
REG. 36CFR223

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
P	122	1-1	7100	106.87	297.79	300.00	299.50	295.05	220.00	108.00	106.87	106.87	106.87	106.87	Overbids-211		
WF&O	015	1-1	500	25.62	25.62	25.62	25.62	25.62	25.62	25.62	25.62	25.62	25.62	25.62			
TOTAL/AVER.		1	7600	101.5	279.89	281.95											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Boise Cascade Corp.	L		2,142,810.00
2	DG Shelter Products	L		2,139,260.00
3	Roseburg Lumber Co.	L		2,107,665.00
4	Double Dee Lumber Co.	S		1,574,810.00
5	Modoc Lumber Co.	S		779,610.00
6	Thomas Lumber Co.	L		771,587.00
7	Weyerhaeuser Co.	L		771,587.00
8	Cone Lumber Co.	S		771,587.00
9	Croman Corp.	S		771,587.00
10				
11				
12				

DISTRIBUTION: Orig. and 1cc to RO (orig. to WO), 1cc to RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature

TITLE Timber Resource Assistant

DATE 3/3/83

REMARKS

		% Volume By Grades 1	2	3	4	5
P	7100	11	11	9	-0-	69
WF&O	500	6	-0-	5	70	19

There is 0.2 MMBF of Non-chargeable included in total volume.

New sale procedures used. Award withheld pending EEO Compliance Review.

R6 Interim 2400-17 (9/81)

(X- 21

COST PER THOUSAND BOARD FEET

LOGGING - 114.78 ROADS - 9.46

Tiller Ranger District

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(Reference FSM 2430, Report FS 2400-A)

REGION	0 6	FOREST	Umpqua 1 5
STATE	4 1	COUNTY	0 1 9
ACRES IN SALE	149	DISTRICT (OR AREA)	0 2
BID DATE	03/ 09/ 83/	SALE NAME	East Quartz
SALVAGE	N	LEGAL DESCRIPTION	T.28S., R .1, 2E
CONT. NO.	069515	SALE NUMBER	0 5 7
STATUS	* 4	QTR. FY	2 — 8 3
PRICING METHOD	1	COMPARTMENT	0 0 0 0
CONTRACT FORM 2400	6	SBA SET-ASIDE	N
PLAN'D SAB COL. $	72,142	CONTRACTING OFFICER	S
APP. CASE PERIOD	3 — 8 2	ZONE	2
TERM DATE	03/ 31/ 86/	CONTRACT DATE	/ /
METHOD OF SALE	A	REG. 36CFR223	6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	3400	34.25	311.06	322.55	322.50	254.00	40.00	34.25	34.25	34.25	34.25	34.25	34.25	34.25	34.2
PINES	117	1-1	800	170.83	159.34	170.83	170.83	170.83	170.83	170.83	170.83	170.83	170.83	170.83	170.83	170.83	170.8
IC&O	081	1-1	900	7.23	7.23	7.23	7.23	7.23	7.23	7.23	7.23	7.23	7.23	7.23	7.23	7.23	7.2
PAM*	002	4-1	1130	9.34	9.34	9.34	9.34	9.34	9.34	9.34	9.34	9.34	9.34	9.34	9.34	9.34	9.3
TOTAL/AVER		1	6230	43.37	192.96	200.71											

Overbid ~ 94%

* Pending receipt of 2400-44 & 45

* PAM sold at the rate of $85.11 per acre for 124 acres; Per M figures for statistical purposes only.

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Roseburg Lumber Co.	L		1,250,395.20
2	Southwest Forest Industries	L		1,250,225.20
3	Capital Veneer Inc.	N		1,017,325.20
4	Bald Knob Land & Timber	N		289,725.20
5	Douglas County Lumber Co.	S		270,175.20
6	C & D Lumber Co.	S		270,175.20
7	Herbert Lumber Co.	S		270,175.20
8	Lone Rock Timber Co.	S		270,175.20
9	D.R. Johnson Lumber Co.	S		270,175.20
10	Huffman & Wright Logging	N		270,175.20
11	Gregory Timber Resources	S		270,175.20
12	Glide Timber Co.	S		270,175.20
				270,175.20

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature

Title Supervr. Resource Tech. DATE 3/15/83

Estimated Timber Quality in %

Species

Log Grade	D	SP	W	WF	H	IC
2P	1					No Grade
3P	22					
SP	4					
1S		4				
2S	44			15	19	
3S	29	13	19	85	81	
4S			81			
5S		83				
	100	100	100	100	100	

COST PER THOUSAND BOARD FEET

LOGGING - 132.27 ROADS - 2.12

Tiller Ranger District

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(Reference FSM 2450, Report FS-2400-A)

(3C) 22

REGION 06
STATE 41
ACRES IN SALE 447
BID DATE 03/ 09/ 83/
SALVAGE N
CONT. NO. 069499

FOREST Umpqua 15
COUNTY 019
STATUS 4
PRICING METHOD 1
CONTRACT FORM 2400 6

DISTRICT (OR AREA) 02
SALE NAME Bolo
LEGAL DESCRIPTION T.29S., R.1E
SALE NUMBER 055
SBA SET ASIDE N
PLAN'D BAR COL. $ 195,029
CONTRACTING OFFICER S
APP BASE PERIOD 3 - 82
TERM. DATE 03/ 31/ 86/
METHOD OF SALE A

QTR FY 2 - 83
COMPARTMENT 0000
ZONE 2
CONTRACT DATE / / /
6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	5200	27.34	327.59	330.00	329.75	318.05	262.00	214.00	150.00	30.00	27.34	27.34	27.34	27.34	27.34
PINE	117	1-1	1300	130.37	127.96	130.37	130.37	130.37	130.37	130.37	130.37	130.37	130.37	130.37	130.37	130.37	130.37
WF&O	015	1-1	900	23.34	23.34	23.34	23.34	23.34	23.34	23.34	23.34	23.34	23.34	23.34	23.34	23.34	23.34
PAM*	002	4-1	1160	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50
TOTAL/AVER.		1	8560	38.93	220.96	222.79											

overbid = 1207%

13.	Douglas County Lumber Co.	S	333,235.00
14.	C & D Lumber Co.	S	333,235.00

*Pending receipt of 2400-44 & 45.

*PAM sold at the rate of $1.82 per acre for 318 acres; Per M figures for statistical purposes only.

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Boise Cascade Corp.	L		1,907,067.00
2	Southwest Forest Industries	L		1,905,767.00
3	Roseburg Lumber Co.	L		1,844,927.00
4	D.R. Johnson Lumber Co.	S		1,553,467.00
5	Huffman & Wright Logging	N		1,303,867.00
6	Capital Veneer Inc.	N		971,067.00
7	Bald Knob Land & Timber	N		347,067.00
8	Lone Rock Timber Co.	S		333,235.00
9	Glide Lumber Co.	S		333,235.00
10	Yoncalla Timber Products	S		333,235.00
11	Gregory Timber Resources Inc.	S		333,235.00
12	Superior Timber Co., Inc.	S		333,235.00

Signature Ora Lee Le Blanc

TITLE Supervi. Resource Tech.

DATE 3/15/83

Estimated Timber Quality in %

Log Grade	D	SP	P	WF	H	IC
2P	1					No Grade
3P	21					
SP	9					
1S		2				
2S	51	4		31		
3S	18	24		69	100	
4S		1				
5S		69	100			
	100	100	100	100	100	

USDA - FOREST SERVICE

(20) 23

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(Reference FSM 2452, Report FS-2400-A)

COST PER THOUSAND BOARD FEET
LOGGING - 101.27   ROADS - .00

REGION 0 6
STATE 4 1
ACRES IN SALE 8
BID DATE 03 / 10 / 83
SALVAGE N
CONT. NO 067323

FOREST (Siskiyou) 1 1
COUNTY (Coos) 0 1 1
Size Class 5
STATUS 4
PRICING METHOD 1
CONTRACT FORM 2400 6

DISTRICT (OR AREA) 0 5 (Powers)
SALE NUMBER 0 1 7
SALE NAME Little Jimmy
LEGAL DESCRIPTION T.32S., R.11W., W.M.
SBA SET-ASIDE N
PLANTD BAS COL. $ 6700
CONTRACTING OFFICER D
APP. BASE PERIOD 4 - 8 2
TERM DATE 07 / 31 / 83
METHOD OF SALE A

QTR.-FY 2 QTR. - 8 3 YEAR
COMPARTMENT 0 0 0 0
ZONE 2
CONTRACT DATE / /
REG. 36CFR223 6

SPECIES	SPEC CODE	PROD UNIT	VOLUME	ADVERTISED RATES $	STAT HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	730	83.68	251.00	251.00	250.05	125.00	100.00	100.00	84.00	84.00	83.68	83.68	83.68	83.68	
PC	041	1-1	30	313.75	313.75	313.75	313.75	313.75	313.75	313.75	313.75	313.75	313.75	313.75	313.75	313.75	
H&O	263	1-1	30	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	
PAM	002	4-1	30	39.24	39.24	39.24	39.24	39.24	39.24	39.24	39.24	39.24	39.24	39.24	39.24	39.24	
							Overbid = 300%										
TOTAL AVER.	1	1	820	87.63	236.58	236.58											

SUMMARY OF BIDDERS

	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
1	Moore Mill & Lumber Co.	S		193999.70
2	Ken Rogge Lumber Co.	S		193306.20
3	Joe Anderson Log-Co-Inc	N		102019.70
4	Ted McNeely Logging	N		83769.70
5	Zuber & Son Logging Inc	N		83769.70
6	Robert Cummings, Inc	N		72089.70
7	South Coast Lumber Co.	S		72089.70
8	Coos Head Timber Co	S		71856.10
9	Roseburg Lumber Co-	L		71856.10
10	Reservation Ranch	S		71856.10
11	Gregory Timber Resources, Inc	S		71856.10
12				

I certify that I have personally examined the bids submitted for the sale and that this is an accurate record thereof.

SIGNATURE Barbara L. McDonald
TITLE Dist. Bus. Management Assistant
DATE 3-10-83

REMARKS SUR DPM Ex Vol 30 4* Forms 44 & 45

D	PC	H&O
3P - 38%	3X - 68%	2 - 59%
SP - 1%	Utility - 32%	3 - 41%
2S - 54%		
3S - 7%		

PAM sold at the rate of $147.15 per acre for 8 acres per M figures for statistical purposes only.

DISTRIBUTION: Orig. and 1cc to RO ... 1cc to RO at SBA

USDA - FOREST SERVICE

51 24

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2190)

COST PER THOUSAND BOARD FEET
LOGGING - 112.27 ROADS - 6.37

REGION	0 5	FOREST Lassen	0 6	DISTRICT (OR AREA) 5 1	SALE NUMBER 0 1 2
STATE	0 6	COUNTY	0 6 3	SALE NAME Ruffa	QTR.-FT 2 - 8 3
ACRES IN SALE 779				LEGAL DESCRIPTION T.27N., R.5&6E., M.D.M.	COMPARTMENT
BID DATE 03/ 14/ 83/		STATUS	9	SBA SET-ASIDE N	APP. BASE PERIOD 3 - 8 2
SALVAGE	N	PRICING METHOD	2	PLAN'D SAB COL $ 62,311	TERM. DATE 03/ 31/ 86/
CONT. NO. 051705		CONTRACT FORM 2400	6 T	CONTRACTING OFFICER S	METHOD OF SALE A
					ZONE 1
					CONTRACT DATE / / /
					6

SPECIES	SPEC CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP-JP	150	1-1	6,649	48.16	41.38	48.16	48.16	48.16	48.16	48.16	48.16						
SP	117	1-1	2,984	60.12	53.34	60.12	60.12	60.12	60.12	60.12	60.12						
WF	025	1-1	3,283	10.00	715.77	722.55	721.33	558.06	547.10	396.63	10.00	Overbid = 7226%					
DF	205	1-1	19	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00						
IC	081	1-1	807	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00						
LP	108	1-1	2	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00						
TOTAL/AVER.		1	13,744	39.34	203.18	209.55											

SUMMARY OF BIDDERS

RANK	NAME	SBA	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Susanville Forest Products	L		2,880,007.57
2	Sierra-Pacific Industries	L		2,876,000.01
3	Louisiana-Pacific Corp.	L		2,340,000.03
4	Roseburg Lumber Company	L		2,304,005.22
5	Collins Pine Company	L		1,810,012.21
6	Heitman Logging	S		540,705.92
7				
8				
9				
10				
11				
12				

DISTRIBUTION: Orig. and 1cc to RO (orig. to RO), 1cc to RO of SBA

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof.

Signature Freda C. Owens

TITLE Resource Officer

DATE 1/17/83

REMARKS

Percent by Log Grade

	1	2	3	4	5
PP-JP	9.1	14.9	16.7	–	59.3
SP	0.9	18.5	17.5	–	63.1
WF	1.6	14.9	83.5		–

Award pending HEO determination.

(35, 25

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(Reference FSM 2430, Report FS 2400-A)

Glide Ranger District

COST PER THOUSAND BOARD FEET / LOGGING 119.29/ ROADS 15.

	0 6
	4 1
	275
	03 / 16 / 83 /
	N
	069614
FOREST	Umpqua 1 5
COUNTY	0 1 9
STATUS	* 4
PRICING METHOD	1
CONTRACT FORM 2400	6
DISTRICT (OR AREA)	0 4
SALE NAME	Cabin
LEGAL DESCRIPTION	T.27S., R.1, 2W
	N
	70,295
CONTRACTING OFFICER	S
SALE NUMBER	0 6 5
QTR FY	2 - 8 3
COMPARTMENT	0 0 0 0
APP. BASE PERIOD	3 - 8 2
TERM DATE	03/ 31/ 86/
METHOD OF SALE	A
ZONE	2
CONTRACT DATE	/ / /
	6

	SPEC CODE	PROD UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	205	1-1	4800	66.54	242.42	259.55	259.50	245.00	236.50	176.50	66.54	66.54	66.54	66.54	66.54	66.54	66.54
HSO	263	1-1	1300	18.03	8.88	18.03	18.03	18.03	18.03	18.03	18.03	18.03	18.03	18.03	18.03	18.03	18.03
PAM*	002	4-1	1000	21.90	21.90	21.90	21.90	21.90	21.90	21.90	21.90	21.90	21.90	21.90	21.90	21.90	21.90
		1	7100	51.37	168.60	181.86											

overbid - 390%

* Pending receipt of 2400-44 & 45
* PAM sold at the rate of $135.19 per acre for 162 acres;
Per M figures for statistical purposes only.

SUMMARY OF BIDDERS

	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
1	Roseburg Lumber	L		1,291,179.00
2	Gregory Timber Resources	L		1,290,939.00
3	Yoncalla Timber Resources	S		1,221,339.00
4	Herbert Lumber Co.	S		1,180,539.00
5	Capital Veneer, Inc.	S		892,539.00
6	Bald Knob Land & Timber	S		364,731.00
7	C & D Lumber Co.	S		364,731.00
8	Nordic Land & Timber	S		364,731.00
9	Douglas County Lumber Co.	S		364,731.00
10	D.R. Johnson Lumber	S		364,731.00
11	Huffman & Wright	S		364,731.00
12	Lone Rock Timber Co.	L		364,731.00

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof.

Signature Dan Lee Le Blanc
Title Superv. Resource Tech.
Date 3/21/83

Estimated Timber Quality in %

Log Grade	D	C	H	WF	W
			Species		
2P	1				
3P	42				
SP	1				
2S	34	2	17	23	21
3S	22	98	83	77	
4S					79
	100	100	100	100	100

Conifer Logging

(21) 26

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(Reference FSM 2430, Report FS-2400-A)

COST PER THOUSAND BOARD FEET
LOGGING - 161.05 ROADS - .00

0 6 FOREST (Siskiyou) 1 1
4 1 COUNTY (Coos) 0 1 1
170 Size Class 5
DATE 03 07 83 STATUS 4*
N PRICING METHOD 1
067349 --- CONTRACT FORM 2400 6

DISTRICT (OR AREA) 0 5(Powers)
SALE NAME Clay Pigeon Two
LEGAL DESCRIPTION T.33S., R.11W., W.M.
SBA SET ASIDE N
PLAN O SAB COL. $ 18140
CONTRACTING OFFICER D

SALE NUMBER 0 1 6
QTR FY 2 - 8 3
COMPARTMENT 0 0 0 0
APP. BASE PERIOD 4 - 8 2
ZONE 2
TERM DATE 12 / 31 / 83 /
CONTRACT DATE
METHOD OF SALE A
REG. 6

	SPEC CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D&O	205	1-1	1530	11.03	165.25	165.25	165.00	160.00	156.00	155.00	75.00	11.03	11.03	11.03	11.03	11.03	
~~PAM~~	002	4-1	80	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	
TOTAL AVER.		1	1610	10.51	157.06	157.06											

Cruised - 1498 [illegible]

SUMMARY OF BIDDERS

	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
1	Ken Rogge Lumber Co.	S		252872.50
2	Theodore R. McNeely	N		252490.00
3	Moore Mill & Lumber Co.	S		244840.00
4	Lone Rock Timber Co	S		238720.00
5	Joe Anderson Log Co. Inc	N		237190.00
6	Zuber & Son Log Inc	N		114790.00
7	Coos Head Timber Co	S		16915.90
8	Gregory Timber Resources	S		16915.90
9	Reservation Ranch	S		16915.90
10	Roseburg Lumber Co.	L		16915.90
11	South Coast Lumber Co.	S		16915.90
12				

Signature Barbara L. McDonald
TITLE Dist. Business Management Assistant
DATE 3-17-83

REMARKS
D&O *Forms 44 & 45
3P - 21%
SP - 6%
2S - 55%
3S - 18%
PAM sold at the rate of $0.93 per acre for 43 acres per M figures for statistical purposes only

USDA - FOREST SERVICE

[illegible] 27

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

COST PER THOUSAND BOARD FEET
LOGGING - 145.50 ROADS - 15.93

REGION 0 6	FOREST Siuslaw 1 2	DISTRICT (OR AREA) 0 3 Alsea	SALE NUMBER 0 4 8	QTR.-FY 2 - 8 3	
STATE 4 1	COUNTY Lincoln 0 4 1	SALE NAME Nye Drift 83		COMPARTMENT 3 3 0 [illegible]	
ACRES IN SALE 528		LEGAL DISCRIPTION Sec 28,33,4T12&13S,R9W,WM			
BID DATE 03/ 17/ 83/	STATUS 9	SBA SET-ASIDE N	APP. BASE PERIOD 4 - 8 2	ZONE 2	
SALVAGE N	PRICING METHOD 1	PLAN'D SAB COL $ 140220	TERM. DATE 12/ 31/ 86/	CONTRACT DATE __/__/__	
CONT. NO. 071480	CONTRACT FORM 2400 6	CONTRACTING OFFICER S	METHOD OF SALE A	REG. 36CFR221 6	

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
DF	205	1-1	7900	16.78	193.30	211.00	210.05	206.00	192.00	175.00	76.78	16.78	16.78	16.78	16.78	16.78	16.78
H	263	1-1	200	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.78
C60	242	1-1	100	12.78	12.78	12.78	12.78	12.78	12.78	12.78	12.76	12.78	12.78	12.78	12.78	12.78	12.78
*PAM	002	4-1	577	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85	0.85
TOTAL/AVER.		1	8777	15.60	174.48	190.41											

overbid = 1257%

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Hampton Tree Farms	S		1,671,224.45
2	Carlile Electric Co Inc	N		1,663,719.45
3	North Side Lumber Co	S		1,631,724.45
4	Ostrom Lumber Co	S		1,521,124.45
5	Rex Timber Inc	L		1,386,824.45
6	Hi Grade Logging	N		610,886.45
7	John C Taylor Lbr Sales	S		136,886.45
8	CCD Industries Inc	N		136,886.45
9	The Murphy Co	S		136,886.45
10	Guy Roberts Lbr Co	S		136,886.45
11	Alsea Veneer	S		136,886.45
12	Mountain Fir Lbr Co Inc	S		136,886.45
13.	Publishers Paper Co	L		136,886.45
14.	Rosboro Lbr Co	S		136,886.45
15.	J R Gates	S		136,886.45
16.	Willamette Ind Inc	L		136,886.45
17.	Fort Hill Lbr Co Inc	S		136,886.45

DISTRIBUTION: Orig. and 1cc to RO (orig. to WO), 1cc to RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature AVALYNE J. STRODE

TITLE Supervisory Resource Specialist

DATE 03-21-83

REMARKS

	2S	3S	2P	3P	SP
OG	37	16	21	26	
SG	67	27		4	2
H	42	58			
C		100			

*Per Acre Material sold at the rate of $3.38 per acre for 145 acres. Per M figures are for statistical purposes only.

RA - 402M; DFU - 175M; OG - 313M

Used New Sale Procedures.

Award pending EEO Determination

R6 Interim 2400-17 (9/[illegible]

(19) 58

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(Reference FSM 2410, Report FS 2400 A)

COST PER THOUSAND BOARD FEET
LOGGING - 122.87 ROADS - 47.47

0 6 (Siskiyou) 1 1
4 1 (Coos) 0 1 1

360 Size Class 8

3 22 83

STATUS 4

N PRICING METHOD 1

067350 CONTRACT FORM 6

0 5 (Powers)
SALE NAME CEDAR PEACOCK
LEGAL DESCRIPTION T32S,R11W, W.M.
SBA SET ASIDE Y
APPRAISED SALE VAL. $ 258271
CONTRACTING OFFICER S

SALE NUMBER 0 1 8
2 8 3
APP SALE PERIOD 4 - 8 2
TERM DATE 12/ 31/ 87 /
METHOD OF SALE A
ZONE 2
CONTRACT DATE
REG INCREMENT 6

	SPEC CODE	PROD UNIT	VOLUME	ADVERTISED RATES $	STAT HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
	205	1-1	14840	60.80	297.80	352.00	351.55	60.80	60.80	60.80	60.80	60.80	60.80	Overbid =		5197	
C	041	1-1	960	303.72	249.52	303.72	303.72	303.72	303.72	303.72	303.72	303.72	303.72				
40	263	1-1	1430	8.98	8.98	8.98	8.98	8.98	8.98	8.98	8.98	8.98	8.98				
~~AM~~	002	4-1	810	34.28	34.28	34.28	34.28	34.28	34.28	34.28	34.28	34.28	34.28				
		1	18040	68.43	260.50	307.97											

SUMMARY OF BIDDERS

NAME	SBA CLASS	CERTIFICATION NUMBER	TOTAL VALUE OF BID
Lone Rock Timber Co.	S		5555859.40
Moore Mill & Lumber Co.	S		5549181.40
Bald Knob Land & Timber	S		1234451.40
Gregory Timber Resources	S		1234451.40
D.R. Johnson Lumber Co.	S		1234451.40
E.W. Mignot	S		1234451.40
Theodore R. McNeely	S		1234451.40
Reservation Ranch	S		1234451.40

Signature Barbara L. McCaw
TITLE Dist. Business Management Assistant
DATE 3-22-83

REMARKS

D	PC	H&O
1P--Trace	SE--Trace	1-- 1%
2P-- 2%	1X-- 2%	2--62%
3P--49%	2X-- 2%	3--37%
5P-- 4%	3X--68%	
1S--Trace	Utility-28%	Sur DPM Ex Vol--960
2S--40%		
3S-- 5%		

*SBA, Forms 44,45

EEO COMPLIANCE REVIEW

PAM sold at the rate of $134.79 per Acre for 20 Acres, Per M figures for statistical purposes o

USDA FOREST SERVICE

(32) 29

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(Reference FSM 2490, Report FS 2400 A)

Tiller

COST PER THOUSAND BOARD FEET
LOGGING - 145.22 ROADS - 12.52

REGION 0 6
STATE 4 1
ACRES IN SALE 185
BID DATE 03 / 23 / 83 /
SBA NAME N
CONT NO. 069655

FOREST Umpqua 1 5
COUNTY 0 1 9
STATUS *4
PRICING METHOD 1
CONTRACT FORM 2400 6

DISTRICT (OR AREA) 0 3
SALE NAME Blackbird
SALE NUMBER 0 6 9
LEGAL DESCRIPTION T.27S,28S,R.3E
SBA SET ASIDE N
PL AND D SAB COL $ 75,595
CONTRACTING OFFICER S
APP BASE PERIOD 4 — 8 2
TERM DATE 03 / 31 / 87 /
METHOD OF SALE A

QTR FY 2 — 8 3
COMPARTMENT 0 0 0 0
ZONE 2
CONTRACT DATE / / /
REG DRAFT 6

SPECIES	SPEC CODE	PAYMENT UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D&Pine	205	1-1	8200	10.00	252.66	266.55	266.50	222.10	10.00	10.00	10.00	10.00	10.00	10.00	10.00	awarded	above
WF&O	015	1-1	900	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00	6.00		
PAM*	002	4-1	1040	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50		
TOTAL/AVER		1	10,140	8.67	204.90	216.14											

*Pending receipt of 2400-44 & 45.
*PAM sold at the rate of $4.06 per acre for 128 acres
Per M figures for statistical purposes only.

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
1	Roseburg Lumber Co.	L		2,191,630.00
2	Southwest Forest	L		2,191,220.00
3	Capital Veneer	N		1,827,140.00
4	Lone Rock Timber	N		87,920.00
5	Herbert Lumber Co.	S		87,920.00
6	C & D Lumber Co.	S		87,920.00
7	D.R. Johnson	S		87,920.00
8	Gregory Timber Res.	S		87,920.00
9	Bald Knob Land & Tbr	N		87,920.00
10	Huffman & Wright Log.	N		87,920.00
11				
12				

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof

Signature ( ),
TITLE Supvr Res. Tech.
DATE
REMARKS

Estimated timber Quality in %

Species

Log Grade	D	SP	W	WF	H	IC	NF
3P	14						56
SP	8						29
1S							15
2S	53	1	36	26	32		
3S	25	13	20	74	59		
4S			44		9		
5S		86					
	100	100	100	100	100		100

(34 '30

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS

Tiller Ranger District

COST PER THOUSAND BOARD FEET
LOGGING - 153.90 ROADS - 2.43

REGION	0 6	FOREST	Umpqua	1 5	DISTRICT 0 2
STATE	4 1	COUNTY	0 1 9		SALE NAME Bow
ACRES IN SALE	470				LEGAL DESCRIPTION T.27,28S,R.2E
BID DATE	03 / 23 / 83 /	STATUS	*4		SBA SET ASIDE N
SALVAGE	N		1		126,045
CONT NO	069630	CONTRACT FORM	6		S

SALE NUMBER	0 6 7		2 8 3
		COMPARTMENT	0 0 0 0
APP BASE PERIOD	4 - 8 2	ZONE	2
TERM DATE	03 / 11 / 88 /	CONTRACT DATE	/ /
METHOD OF SALE	A		6

SPECIES	SPEC CODE	[illegible]	VOLUME	ADVERTISED RATES $	[illegible] $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
D	1-1	205	9400	11.16	262.65	279.05	279.00	221.00	200.00	150.00	11.16	11.16	11.16	11.16	11.16		
P	1-1	117	1500	11.16	11.16	11.16	11.16	11.16	11.16	11.16	11.16	11.16	11.16	11.16	11.16		
IC&O	1-1	081	1100	2.16	2.16	2.16	2.16	2.16	2.16	2.16	2.16	2.16	2.16	2.16	2.16		
PAM*	4-1	002	2250	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50	.50		
TOTAL		1	14250	8.78	174.68	185.50											

Overbid =2500%

*Pending receipt of 2400-44 & 45
*PAM sold at the rate of $2.97 per acre for 179 acres;
Per M figures for statistical purposes only.

SUMMARY OF BIDDERS

	NAME	SBA CLASS		TOTAL VALUE OF BID
1	Roseburg Lumber Co	L		2,643,311.00
2	Bald Knob Land & Tbr	S		2,642,041.00
3	Southwest Forest Ind.	L		2,097,641.00
4	Lone Rock Timber	N		1,900,241.00
5	Capital Veneer	S		1,430,241.00
6	D. R. Johnson	S		125,145.00
7	Huffman & Wright Logging	N		125,145.00
8	C&D Lumber Co.	S		125,145.00
9	Herbert Lumber Co.	S		125,145.00
10	Gregory Tbr. Res.	S		125,145.00
11				
12				

Supvr. Resource Tech.

Estimated timber Quality in %

Log Grade	D	SP	W	P	WF	H	IC
		Species					
2P	3						
3P	13						
SP	7						
1S		3					
2S	55	2			38		28
3S	22	15	100	100	62	100	72
4S							
5S		80					
	100	100	100	100	100	100	100

(5)

USDA - FOREST SERVICE

31

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS

LOGGING - 109.13
ROADS - 2.45

REGION 0 6
STATE 4 1
ACRES IN SALE 1675

FOREST Winema 2 0
COUNTY Klamath 0 3 5
Size Class 7

DISTRICT (OR AREA) Chiloquin 0 2
SALE NUMBER 0 1 2
SALE NAME TORRENT
LEGAL DESCRIPTION T.34S,R12E,W.M.

QTR.-FY 2 - 8 3
COMPARTMENT 2 1 3 1

BID DATE 03/ 24/ 83/
SALVAGE N
CONT. NO. 061317

STATUS 9
PRICING METHOD 3
CONTRACT FORM 2400 6

SBA SET-ASIDE N
PLAN'D SAB COL $ 491,583
CONTRACTING OFFICER S

APP. BASE PERIOD 4 - 8 2
TERM. DATE 12/ 31 / 85/
METHOD OF SALE A

ZONE 1
CONTRACT DATE __/__/__/
REG. 36CFR223 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
P	122	1-1	6800	34.30	193.18	197.00	34.30	190.00	183.00	36.00	34.30	34.30	Overbid		= 574%		
LP&O	108	1-1	3800	25.30	25.30	25.30	315.00	25.30	25.30	26.00	25.30	25.30					
TOTAL/AVER.		1	10600	31.07	133.00	135.45											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Weyerhaeuser Co.	L		1,435,740
2	Boise Cascade Corp.	L		1,430,240
3	DG Shelter Products	L		1,388,140
4	Thomas Lumber Co.	L		1,340,540
5	Modoc Lumber Co.	S		343,600
6	Croman Corporation	S		329,380
7	Gregory Timber Resources	S		329,380
8				
9				
10				
11				
12				

DISTRIBUTION: Orig. and 1cc to RO forwd. to WO, 1cc to RO of SBA

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof.

Signature

TITLE Timber Resource Assistant

DATE 3/25/83

REMARKS

Log Grade By Percent of Volume

Species	1	2	3	4	5
P	0.8	2.2	14.4	--	82.6
LP	No grades assigned				

New sale procedures used.

Award withheld pending EEO Compliance Review.

Verbal approval given 3/25/83.

Senator HATFIELD. Thank you, Mr. Harrison. Mr. Davis, do you wish to have any comments further?

Mr. DAVIS. No, sir. I haven't got an oral statement. I would just be willing to answer any questions that the committee might have.

Senator HATFIELD. You may submit something for the record later if you wish. We will keep the record open for 2 weeks.

Mr. White.

STATEMENT OF GENE H. WHITE, PRESIDENT, BURNETT LUMBER CO., HEAVENER, OKLA.

Mr. WHITE. Mr. Chairman, any other committee members that are left here now, I have submitted a written statement. I want to make just a short talk and try to get an airplane back to Oklahoma.

Senator HATFIELD. Your full statement will be placed in the record.

Mr. WHITE. I have come to Washington enough in recent years to become relatively familiar with the place. We have been fighting the speculation problem in Oklahoma and Arkansas for 7 or 8 years, perhaps 10. We tried to get Congress—we have worked with Senators, worked with SBA, worked with the Forest Service because we knew this was coming because it was already in our area.

We finally brought, among other things, part of our problem to a head in a Senate hearing on small business, U.S. Senate, Hot Springs, Ark., February 19, 1982. I was relatively surprised to see Mr. Davis here from Willamette asking for relief since his company presented a letter in this hearing which among other things says if the SBA program is a subsidy to inefficiency, which we believe it is, should the taxpayer continue to lose revenue from national forest product sales? There is no way that inefficiency should be supported by any taxpayers' money, regardless of the number of employees on the payroll. This is page 187.

I find that we sometimes speak in different tongues. I think that it is offensive to me that no one at this meeting has mentioned that it is an immoral act to make an agreement with the Federal Government that you can't meet. I think it is wrong that it has not been brought up at this meeting that the prices that are paid by the west coast and many of our Arkansas and Oklahoma citizens, we have never in our history had a market that would let those sales be cut—never. We are right now at a time equal to an alltime high in our lumber market, and those were good bids then. Then why are these people here testifying and not at home cutting logs? I think it is time that we asked that question.

The truth of the matter is that small and large fortunes have been made by sawmills, loggers, individuals, real estate people, in the speculation of timber which has gone up consistently for so many years that you got used to making hundreds of thousands of dollars from buying timber today and holding it for 5 years with no money down and making a tremendous profit. They just got caught, and we think that they should meet those contracts or get out, and if they get out and there is a need for the product and the timber that they make the product from, some prudent businessman would be most happy to take over that operation.

Thank you very much.

Senator **Hatfield**. Particularly the southern pine operation.

Mr. **White**. Any operation.

[The prepared statement of Mr. White follows:]

Statement of Gene H. White, President
Burnett Lumber Company
Heavener, Oklahoma 74937

Made before the committee of
Public Lands and Reserved Water
April 22, 1983

Mr. Chairman and Members of the Committee:

I oppose the passage of S.916 and or S.848 on the following reasons.

Arguments for passage are based on questionable reasoning and distorted facts, both on the condition of the companies the legislation is designed to help and on the potential effects of the legislation itself.

The legislation would limit the liability of defaulters to amounts that might be below even the costs of resale.

The legislation would free certain individuals and companies of obligations, but would not help neighboring mills that honored their contracts.

The cost to the treasury may be far higher than anticipated.

The legislation rewards non-prudent un-called for past speculation and sets the stage for far more in the future.

The casting off of 40% of past contracts and giving of 5 additional years on the balance guarantees no losses and also guarantees massive windfall profits on the 60% retained.

The excessive high bids have continued thru most of 1981 and 1982. The same people asking relief have continued policy that got them in trouble.

The legislation will benefit relatively few companies while being a detriment to many.

The forest service has already liberalized its extension policy to more than cover the down cycle of the wood products business.

The contract termination dates vary. There is no reason to belive that all this problem is going to happen at once.

No studies suggest that more than a few would be potential victims of bankruptcy.

Low price sales have already been offered in the West offering competitive advantage over the South. The relief of the high prices sales will only add to this advantage.

The lumber market today equals our all time highs. Why are these mills requesting relief and not home cutting timber from these sales?

Over the past 10 years, immense profits have been made in the speculative bidding of government timber. This bidding has involved both manufacturers of wood products as well as individuals and companies not necessarily related to the wood business.

The very nature of the way the government sells timber with very little money down and several years to perform opens the door to this speculation. This speculation has created artificially high prices in our country for wood products. Many a manufacturing plant has found itself in a condition of extreme shortage of raw material when in reality there was a surplus on the market which was being held off the market waiting for higher prices.

In the late 1970's, we in Oklahoma and Arkansas began an effort to work with the Forest Service and the SBA to alleviate the intense financial pressure this speculation was creating in our manufacturing plants.

In February, 1980, we came to Washington and met with Senator Talmadge of Georgia, Senators Bumpers and Pryor of Arkansas, Senators Bellmon and Boren of Oklahoma, Representatives Hammersmidt of Arkansas and Watkins of Oklahoma.

In the office of Senator Boren, we met with executives of USDA, Forest Service, and SBA. The express intent of this encounter session was our efforts to stop the wild, un-called for speculation on national forest timber, in particular the disasterous effect on the SBA set-aside program. Our concern was that this speculation was being used by large and very large manufacturers of wood products to more dominate the market by systematically starving other manufacturers for their basic raw material. Large land holding companies had only to stand by and watch their balance sheets grow as the price of the timber on their lands increased daily. There were rules then in Forest Service and SBA manuals to limit this speculationproblem; however both chose not to apply these rules. The indication from the government agencies was the same as stated by the speculators and large business and it basicly said " get competitive or get out." Government officials somehow felt that the higher the bid for timber the better they had done their job without regard to whether prudent business judgement and practices were being used by the bidders.

We specifically reminded the Senators and government officials that the government would eventually get this timber back in default because prices of wood products were at an all time high and were not nearly high enough to pay for the timber prices.

In March, 1981, we again appeared in office of Senator Boren with the USDA and SBA officials. We told them the situation was more desparate for us because of this bidding and again that those sales would not be cut at the prices bid. We were told that they were not worried that they would not be cut and that if not the government was adequately bonded and they would forclose. We were treated by the government officials as some where between poor businessmen and wild radicals. I felt we were prudent businessmen who would rather starve for timber than make contracts with the government we knew neigher we nor others could fulfill.

A hearing was held in Mena, Arkansas with USDA, SBA and timber operators. A Senate Hearing was held in Little Rock, Arkansas by Senators Bumpers and Pryor. Testimony was given by operators as well as Senators Boren and Nickles and Representative Watkins.

We have twice met in Washington with Senator Jessie Helms in our continued efforts to halt the speculation problem.

The problems the over-speculated mills, loggers and others have in the Western States do not differ from those in Arkansas, Oklahoma and other Southern States. Bad management should answer to their stockholders with better performance, not government bailout. The falling housing market is responsible only in a small way for the troubles of the speculators. We have never had a market strong enough to support many of these bids. The market price for lumber now equals our previous highs and these people are still here asking relief rather than home making lumber.

The problems faced by nany with over priced timber are not accidents, but intentionally created in hopes of inflation created windfall profits.

This legislation guarantees not only no bankruptcy, but no loss of profits. There is not even a requirement of proof of need.

These companies bid contracts with terms of 2 to 5 years and longer. They have already been given more than 2 years extension. This legislation gives them 5 more years from last date of expiration. That is a total of at least 12 years. I do not see how the government can offer this oppoutunity of massive profits in good conscience.

There is no guarantee that bankruptcy will happen should these sales not be canceled. Let those who will fail, fail and their stockholders and management lose. Considering there is a need for the product and raw material available, some prudent businessman using better judgement will buy and operate those failed plants.

We have lost several mills in our area of Arkansas and Oklahoms to speculators hoarding timber for profit, but none to the economy.

Let's face it, those speculators bet their money on a chance to make fortunes and lost. I suggest we leave it there and let the lesson be learned.

Please do not take from us the right and opportunity to go broke. I am sincerely afraid that with this we will also loose the right to take a chance for profit. Let the free enterprise system remain free.

I thank you for your time and giving me an opportunity to appear at this hearing.

Burnett Lumber Company, Inc.

Gene H. White

Gene H. White, President

Senator **Hatfield**. Mr. Davenport.

STATEMENT OF JOHN A. DAVENPORT, ALLIED FOREST PRODUCTS, INC., PORTLAND, OREG.

Mr. **Davenport**. I am John Davenport from Portland, Oreg. I am speaking today on behalf of the Allied Forest Products, a small business lumber manufacturer headquartered in Portland, Oreg. Allied's facilities are located in Alamogordo, N. Mex., Escalante, Utah, and Sheridan, Wyo., and I will direct these remarks toward section 6 of S. 916, the transferrable road credits.

Allied Forest Products operates in areas of high-cost roads and low-value timber. In 1981 when the lumber market dropped, then found itself with roads already constructed but the stumpage had dropped. They were no longer able to recover the cost of the roads from the timber sale, and they ended up providing the Government with some very expensive gifts.

We believe that as drafted, S. 916 outlines a very cumbersome procedure. Companies such as Allied, for example, would have to find another operator willing to buy for cash earned purchaser credits, probably at a substantial discount. You might find somebody willing to take your earned credit. He would say I'll do it for 50 cents on the dollar.

Other companies with timber contracts throughout the West could avoid the discount. Furthermore, the administration of such a system would be a nightmare for the Forest Service. We are talking about permanent roads, roads that will remain long after the timber operator leaves and roads that become the backbone of multiple use of the forest. It appears to us that the sensible way to provide equity for the operators and for the Government is to do away with the purchaser credit system and create legislatively a revolving fund for the construction of permanent forest roads. The fund would be in a manner similar to K–V funds used for site preparation.

We are proposing that all permanent roads be paid for from this fund on a national level. As permanent roads are constructed either by contractors or as a contract requirement of a timber sale, payment would come from this fund, thus offsetting payments due. The Congress would exercise control over the total dollars to be spent, and spending levels would be set nationally or regionally under the appropriations process.

It appears to me that the forest products industry is going through a process of change and restructure. As long as painful changes must be endured, they should be constructive ones that benefit the Government and the public.

I would like to direct some comments to your questions this morning to what to do with the continued patterns of speculative bidding.

In my opinion, speculative bidding, there are two aspects of this. The first one is that really we are dealing with commodities just like buying pork bellies on the Chicago Board of Trade. People in the past have been buying timber for speculative purposes with very little money down, and it has been a commodity trading game.

The way to control the commodity trading game in my opinion is to raise the margin just as the Federal Reserve Board controls the stock exchange—it raises the margin. That obviously is what is needed here, and we would strongly suggest that up-front cash deposits be required for bid—substantial ones, say 10 percent, just to bid, 50 percent maybe on a 1-year sale, cash up-front. That is the way they do business on private lands in the South and elsewhere in the United States. Longer sales have lower cash deposits, but substantial up-front cash deposit as a way to control speculative bidding, and the only fair way that I can see.

It is true that some people will have problems raising large amounts of cash. Well, they wouldn't be bidding then, but if they can't raise cash, they shouldn't be out there bidding these sales up to $200 and $300 which is what is going on today.

The second aspect of it was brought out in a question by Senator McClure to one of the witnesses when he asked him how many months' timber do you have under contract? And the gentleman responded 2 years, but he doesn't. He has 2 months. He has got 22 months of timber that he can't operate and 2 months that he can operate, and that is one of the reasons why you see a lot of high bids is people are very short of timber in the West. There is plenty under contract, but none that can be operated.

Now I have done a study for Stimson Lumber Co. of Portland, Oreg., regarding the latest spate of speculative bidding, and they will submit that in writing to the committee later on, and I might just briefly summarize it for you now.

I examined 119 timber sales sold in the last 2 months, total volume over 1 billion board feet, and total appraised price of $28.8 million, and the total high bid was $171,625,000. The average high bid was 5.956 times the appraised price, and there were 10 bidders average on each sale.

I am not saying that these bids are not break-even bids. What I am demonstrating in this exhibit that we submitted is to show that this pattern of always going for the last dollar is persisting and will continue to persist.

[The prepared statement of Mr. Davenport follows:]

2300 Southwest First Avenue
Portland, Oregon 97201
Telephone (503) 224-4051

ALLIED FOREST PRODUCTS, INC.

STATEMENT before the Subcommittee on Public Lands and Reserved Water

of the Energy and Natural Resources Committee

HEARING on S.916 - April 22, 1983

Mr. Chairman:

My name is John A. Davenport, 3230 N.E. U.S. Grant Place, Portland, Oregon 97212. I am an independent timber analyst, specializing in federal timber issues.

I am speaking today on behalf of Allied Forest Products, Inc., a small business lumber manufacturer headquartered in Portland, Oregon. Allied's facilities are located in Alamogordo, New Mexico; Escalante, Utah; and Sheridan, Wyoming. I will direct most of my remarks toward Section 6 of S.916 (Transferrable Road Credits).

Section 6 directs the Secretary of Agriculture to develop rules and regulations to allow purchasers in areas of high cost road construction and low value timber to recover the cost of completed roads. It allows operators to transfer these costs to other sales with positive timber values, or to sell these earned credits to other operators with positive timber values.

Allied Forest Products operates in areas of high cost roads and low value timber. In 1981, when lumber markets disappeared and prices plummeted, the company found itself with roads already constructed but with no way to recover cost by the use of earned purchaser credits. Timber values had reached base rates, Therefore, there was nothing to use credits against. Consequently, Allied will provide the government with some very expensive gifts.

As drafted, S.916 outlines a cumbersome procedure. A company such as Allied would have to find another operator willing to buy for cash earned purchaser credits, probably at a substantial discount. Large companies with timber under contract throughout the West would avoid the discount. The administration of such a system would be a nightmare for the Forest Service

We are talking about permanent roads - roads that will remain long after the timber operator leaves; roads that become the backbone of multiple use forest management.

It appears to me that the sensible way to provide equity for government and for the operators is to do away with the purchaser credit system altogether and create, legislatively, a revolving fund for the construction of permanent forest roads. The fund would operate in a manner similar to K-V funds used for site preparation and planting. Another similar funding device is the Forest Road Appropriation, applicable to opted roads, used when actual costs exceed engineers estimate.

Allied Forest Products proposes that all permanent roads be paid for from a fund derived from timber receipts, on a national level. As permanent roads are constructed either by independent contractors or as a contract requirement of a timber sale, payment would come from this fund unless offsetting harvest payments were due. The Congress would exercise control over the total dollars to be spent, and spending levels would be set nationally, or regionally, under the appropriation process.

It appears to me that the forest products industry is going through a process of change and restructure. As long as painful changes must be endured, they should be constructive ones to benefit the government, the industry, and the public.

I should also like to comment on the fact that S.916, as written, does not attempt to cope with continued patterns of speculative bidding. We strongly suggest that substantial, up-front cash deposits be required for bidding (10%) and award (25% to 50%), and that these deposits be maintained over the length of the sale. Under such a system, large performance bonds could also be lowered.

I, personally, believe a legislative solution must be found to the timber contract relief situation. Responsible operators throughout the West and I thank you for your time and consideration, and await your decisions.

Senator **Hatfield**. Thank you very much, Mr. Davenport. Thank all you gentlemen. I appreciate very much your time and your testimony.

Mr. **White**. I didn't use all my 5 minutes. Could I have 10 seconds to say something I forgot that I think is important? And that is I believe it is important that we maintain in our country the right to go broke. I think you have heard all of those suggestions. I have a list here that I will lay in of suggestions how we would prevent this situation from coming up again, but in every case in working with the Federal Government for a lifetime which I have on this timber is we overkill, and when you take away this privilege that we may be losing to go broke, if we write in regulations to prevent it again, you will have taken from us also the right of profit if we aren't very careful, and I think we should remember that.

Thank you, sir.

Senator **Hatfield**. Thank you very much. I would like to invite Peter Kirby of the Wilderness Society, Dennis Baird on behalf of the Idaho Environmental Council, and Connie Mahan representing the National Audubon Society, Sierra Club.

I invited three and got four.

Mr. **Kirby**. Mr. Chairman, my name is Peter Kirby, the Director of the Forest Management Program at the Wilderness Society.

Joining me at the table is Al Sample who is the forester at the Wilderness Society.

STATEMENT OF PETER C. KIRBY, DIRECTOR OF FOREST MANAGEMENT PROGRAMS, THE WILDERNESS SOCIETY, WASHINGTON, D.C.; ACCOMPANIED BY AL SAMPLE, FORESTER, THE WILDERNESS SOCIETY

Mr. **Kirby**. As we indicated in our testimony before this committee last year, the conservation community is sensitive to the economic problems that have beset the Northwest due to the recession and the housing slump of recent years.

Our most constructive role in this current debate will be to suggest ways that this legislation can be improved environmentally and economically. If these improvements are made, there can be greater public consensus and support of the bill and a greater likelihood that relief can be afforded. Here are our positions on S. 916 and S. 848.

First, we generally support contract termination as the most appropriate remedy for overbid contracts. Essential to this support, however, is a requirement that the terminated contracts be reoffered first before new sales are offered in the wilderness areas.

In addition, we oppose contract extensions. We also urge the committee to consider a provision that economic hardship be shown by the contracting parties.

Second, we strenuously oppose the uneconomic and environmentally damaging road credit provisions contained in section 6 of your bill. We prefer the approach of the Cranston bill which deletes this entire section.

And last, we oppose the nongermane and unnecessary provisions establishing the special program for salvage sales and related activity.

If the timber relief legislation is improved along the lines suggested, then the conservation community will be able to fully endorse the measure. However, because the road credit provisions are so threatening for environmental values, we are left little choice but to oppose the entire relief measure if these provisions are kept. Let me expand briefly on our objections to road credit provisions.

Road construction is one of the biggest single causes of environmental damage to the national forests. It often results in serious stream siltation, fisheries and wildlife habitat, and visual scarring among other effects. Under current law, the Federal Government reimburses timber companies for costs of building timber-scale roads, not the road costs beyond the value of the timber.

Section 6 of S. 916, however, would change the law to allow purchasers of national forest timber credit for all road construction costs, regardless of the value of the timber. For example, under present law, if a sale has 50,000 dollars' worth of timber, the company doesn't get more than $50,000 in reimbursement for road costs. If the law would change as proposed in S. 916, however, a company could be reimbursed for $150,000 let's say for costs in reaching this 50,000 dollars' worth of timber. The Treasury would in effect be paying the timber companies to take Federal timber for free. In our hypothetical case there would be no receipts, only nominal amounts going to the Treasury with 50,000 dollars' worth of timber and $100,000 in revenue is being taken from the Treasury because of the road construction subsidy.

As you know, Mr. Chairman, in 1982 the timber purchaser credit fund was made an off-budget item. As such, expenditures are not counted into the total budget picture and are not reflected in the annual appropriations. Taking advantage of this situation, the administration is seeking to fund a larger road construction program in fiscal year 1984 budget, for a major increase in purchaser road credits from $240 million approved in fiscal year 1981—I'm sorry—1982, to $291 million in fiscal year 1984. There is little to prevent the purchaser credit figure from growing even larger in the years ahead, especially if the laws change to allow all the timber company road costs to be credited.

To sum up, Mr. Chairman, we would like to be able to support an improved version of S. 916, but if the road credit provisions are kept, we have little choice but to oppose the timber relief measure all together.

[The prepared statement of Mr. Kirby follows:]

THE WILDERNESS SOCIETY

FOUNDED IN 1935

STATEMENT OF PETER C. KIRBY, THE WILDERNESS SOCIETY, ON PROPOSED TIMBER INDUSTRY RELIEF LEGISLATION BEFORE THE PUBLIC LANDS AND RESERVED WATER SUBCOMMITTEE OF THE SENATE COMMITTEE ON ENERGY AND NATURAL RESOURCES.

Mr. Chairman, my name is Peter C. Kirby, the Director of Forest Management Programs at The Wilderness Society. The Wilderness Society, a nationwide group headquartered in Washington, D.C., is dedicated to sound and balanced multiple-use management of the nation's forest and range lands and to protection of the unique values of our remaining public wildlands. Assisting in the preparation of the testimony is Al Sample, the forester of the Forest Management Program. This testimony is also being submitted on behalf of the Natural Resources Defense Council, a nationwide group headquartered in New York City, dedicated to protecting America's endangered natural resources and to improving the quality of the human environment. Its forest specialists include Kaid Benfield in Washington, D.C. and Trent Orr in San Francisco.

As we indicated in our testimony before this Committee last year, The Wilderness Society and NRDC are sensitive to the economic problems that have beset the Northwest due to the recession and housing slump of recent years. We want to help shape measures that will lessen the human and financial impacts of the recession and bring about eventual economic recovery. Our most constructive role in this current debate will be to suggest ways that legislation can be improved environmentally and economically. If these improvements are made there can be greater public consensus in support of a bill and a greater likelihood that needed relief can be afforded. Here are our positions on S. 916 (the Hatfield bill) and S. 848 (the Cranston bill).

1. We generally support contract termination as the most appropriate remedy for overbid contracts. Essential to this support, however, is a requirement that the terminated contracts be reoffered first before new sales are offered in roadless areas. In addition, we oppose contract extensions. We also urge the Committee to consider a provision that economic hardship be shown by the contracting parties.

2. We strenuously oppose the uneconomic and environmentally-damaging road credit provisions contained in Section 6 of the Hatfield bill. We prefer the approach of the Cranston bill which simply deletes this entire section.

3. We oppose the nongermane and unnecessary provisions establishing a special program for salvage sales and related activity.

If the timber relief legislation is improved along the lines suggested, then the conservation community will be able to fully endorse the measure. However, as we will discuss in more detail, because the road credits provisions are so threatening to environmental values, we are left with little choice but to oppose the entire relief measure if these provisions are kept.

1. We generally support contract termination as the most appropriate remedy for overbid contracts. As noted, there are a number of elements to termination which we view as essential to its environmental and economic soundness. These are:

a. There should be a forest-by-forest moratorium on new timber sales in roadless areas until terminated sales in roaded areas are reoffered for sale. Both S. 916 and S. 848 authorize the Secretary to terminate up to 40% of a purchaser's timber volume on contracts bid prior to Jan. 1, 1982. When these contracts are terminated it makes strong economic and environmental sense that they should be reoffered first before brand-new sales are made available in roadless areas.

From an economic point of view, the terminated sales should be reoffered first because of the obvious cost savings to the government. These sales have already received environmental study; timber volumes and sale designs have already been surveyed, and personnel have already administered the sale at least once. Thus, from the standpoint of efficiency alone these sales should be recycled before new ones are offered. In addition, road access costs, which are one of the single biggest expenses of timbering, would be less for recycled sales in roaded areas than for new sales in areas not presently roaded.

From an environmental point of view, the reoffering of terminated sales in roaded areas will allow for a reduction in road construction mileage needed in the new few years. Road construction is one of the single biggest causes of environmental damage to the National Forests; it often results in serious stream siltation, fisheries and wildlife habitat damage, and visual scarring, among other effects. By selling the terminated sales first, the Forest Service can still offer the timber levels set by Congress through appropriations and cause much less environmental damage.

In addition, roadless areas designated non-wilderness in RARE II would not need to be entered until the terminated sales are all reoffered. This outcome would benefit all parties conferring on wilderness legislation, including the Congressional delegations. They would gain additional time for careful study of areas under consideration.

Section 5 of the Hatfield bill requires that "timber from terminated contracts shall be given preference for resale in the 1983 timber sales program." This is a good start toward the objectives we have described.

However, the 1983 timber sales program (which ends Oct. 1, 1983) will probably be over by the time this bill is likely to become law. Hence, we suggest that "the 1984 and 1985 timber sales program" be substituted

Neither bill, however, addresses the priority needed for resale regarding roadless areas. Thus, we urge that the following language be added to Section 5: "For each forest unit, no timber sale shall be offered in areas designated as nonwilderness in Executive Communication 1504, Ninety-sixty Congress (House Document Numbered 96-119) until all terminated sales have been reoffered for resale." This provision will assure that the economic and environmental benefits of offering the sales in roaded areas first will, in fact, take place.

b. Contract terminations should be the exclusive remedy for overbid contracts, not further contract extensions. Contract termination appears to us to be the only remedy that is needed to address the current situation. If uneconomic contracts are terminated, then the companies now holding them will not face default. And if the contracts are then reoffered, they will be sold at current market prices, allowing for work and employment to resume. If the 40% figure is too small to provide full relief, then it should be increased. Extensions have the effect of rewarding the speculators who bid up the prices of contracts in the late 1970s. With extensions, these speculative bidders get to keep their contracts and profit from them. It is not in the public interest to do so. Overbid contracts should be terminated so that all qualified firms can re-bid.

c. We urge the Committee to consider an economic hardship requirement for the private contracting parties. The original legislation introduced by Senator Hatfield last year, S. 2805, (97th Congress, 2nd Session) required "a showing of economic hardship by the private contracting party" before the

Secretary could modify a company's contracts. We urge the Committee to take a hard look at whether this provision should be added back on at this point. Such a provision would help target relief to the truly needy timber companies and add credibility to this bill as an emergency measure needed "to avert widespread bankruptcies."

In the Committee report, further direction could be provided that companies must provide public statements showing financial situations that would likely produce bankruptcies should contract relief not be granted. The report could specify that the Secretary would have to certify to such conditions before allowing termination. Again, we urge the Committee to consider the advisability and practicality of an economic hardship requirement.

2. Conservation groups strongly oppose the uneconomic and environmentally-damaging road credit provisions contained in the the Hatfield bill. Under current law, the federal government reimburses timber companies for the costs of building timber-sale roads, but not for road costs beyond the value of the timber. Section 6 of the Hatfield bill, however, would change the law to allow purchasers of National Forest timber credit for all road construction costs, regardless of the value of the timber. Among our economic and environmental objections:

a. The change in law would allow for an undisguised and uneconomic raid on the federal Treasury by the timber companies. Under present law, if a sale has $50,000 worth of timber, the company gets no more than $50,000 in reimbursement for road costs. If the law were changed as proposed in the Hatfield bill, the company could be reimbursed for $150,000, let's say, for costs in reaching this $50,000 worth of timber. The Treasury would, in effect, be paying timber companies to take federal timber for free. In our hypothetical case there would be no receipts (or only nominal amounts going to the Treasury for the $50,000 worth of timber and $100,000 in revenues being taken from the Treasury because of the road construction subsidy.

In FY 1982 the Timber Purchaser Credits fund was made an off-budget item. As such, expenditures are not tallied into the total budget picture and are not reflected in the level of the annual budget deficit. Although the appropriations committees can recommend a "cap" on timber purchaser credits, there is little incentive for them to hold the line on these expenditures. Taking advantage of this situation, the Administration is seeking to fund a larger road construction program in the FY 1984 budget through major increase in purchaser road credits - from the $240 million approved in FY 1981 to $291 million in FY 1984. Under the FY 1984 budget, purchaser credit roads would total 130% of appropriated roads ($211 million). There is little to prevent the purchaser credit figure from growing even higher in the years ahead, especially if the law is changed to allow all timber company road costs to be credited.

b. The change would reverse past efforts by Congress to bring economic common-sense to federal timber management. Section 6(k) of the 1976 National Forest Management Act directs the Forest Service to consider economic efficiency in making timber sales and investments. Limitless road credits, not even subject to the appropriations process, would remove major disincentives for the agency in pursuing highly uneconomic sales in remote areas. Section 6(k) of a basic forestry law could be subverted without Congress even knowing it.

Moreover, the direction in the Hatfield bill that nothing supercedes the Section 6(g) [sic] provisions of the NFMA about timberlands suitability will not prevent uneconomic roadbuilding. Current law is not effective in preventing highly uneconomic timber sales in the national forests. Section 6(k) of the National Forest Management Act (NFMA) requires the Forest Service to identify lands economically unsuitable for timber production and to remove them from the timber base. However, the Forest Service has interpreted this to mean that they can continue to offer timber sales in which anticipated returns do not cover the costs. Economics is not considered a limiting factor at all and is not a definitive decision element in planning timber sales.

Specifically, the NFMA rules adopted by the Forest Service call for timber lands to be ranked during the forest planning process by the degree of cost efficiency. The designation of lands as "unsuitable" for timber management, however, will be not on a cost-benefit analysis but on how much land is needed to achieve the timber production goals of the forest plan. This means that lands with a very low or even negative cost-benefit ratio for timber production may be deemed suitable for timber management in upcoming NFMA forest plans. Laws and policies which permit uneconomic timber sales under such vague regulations as these offer scant protection to the remaining roadless lands on our national forests.

c. The change would draw demand for timber to the National Forests and away from private lands, which are generally more accessible and productive. Private landowners do not receive federal subsidies to road their lands for uneconomic timber sales. If limitless road credits are allowed in National Forests, companies will very logically look first to buy from the federal government, to the unfair disadvantage of the private landowners.

d. Limitless road credits could disqualify millions of acres from deserved classification as wilderness. As we have explained, this change would threaten remote and inaccessible areas with heavily-subsidized road-building. Not only would the Treasury be the loser, but the many natural values of these wild places would be needlessly sacrificed.

The proposed legislation provides that RARE II lands recommended for wilderness and lands identified for further planning are not subject to the new road credits provision. Again, this is a good first step but not a very meaningful one since these lands are not now open to timber sales in any event. We urge the Committee to also reference the lands designated non-wilderness in RARE II in order to fully protect eligible wilderness lands.

e. Lastly, this is not the first time that this type of road construction subsidy has been before Congress. Senator McClure introduced a similar provision in 1975 (S. 364) only to have it rejected by the fiscally conservative Ford Administration. This revived proposal should not be accepted in 1983 as an addition to contract termination legislation. It is not related to the effects of the current recession and would cause wholly unacceptable economic and environmental consequences.

3. We oppose the establishment of a special program for salvage sales and related activities in this bill.

Section 10 of the Hatfield bill incorporates legislation introduced earlier by Senator Melcher setting up a special program for removing dead and "disease-threatened" timber from the national forests. We urge the Committee to strike this section from the bill.

a. The salvage sale section is not germane to timber relief legislation. Senator Melcher introduced this measure early in 1982, well before Senate bills were put in for timber relief. Whatever the merits of this bill, it has nothing to do with overbid contracts and the economic distress facing the timber industry. It should be struck from the timber relief bill as nongermane.

b. The salvage sale authority is duplicative and is not needed. The Forest Service already has the statutory authority to do the things enumerated in Section 10. Among other authorities, the Wood Utilization Act of 1980 provides an adequate basis for "accomplishing more extensive utilization of low grade materials...providing increased public availability to firewood" and the like. If these activities are not being funded, then that is a matter to be taken up with the appropriating committees, but duplicative legislation is not the answer. As it is, more than 540 million board feet of timber in the FY 1984 timber sales program will be coming from salvage sales.

c. The salvage section contains some potential for environmental abuse. Section 10(b) is directed at removing "disease-threatened" timber from the national forests. This is an expansion of purpose from the legislation put in by Senator Melcher in 1982, s. 2289, which did not contain this category. We are concerned that the targetting of "disease-threatened" timber may lead to environmental abuses. Timber in this category often consists of overmature trees, which by some standards, may be considered subject to insect and fire danger. On the other hand, these old-growth stands may be valuable for certain wildlife species and may promote key watershed and recreation purposes. Section 10, if it should become law, should be limited to dead, diseased and down timber, and should not extend to the nebulous category of "disease-threatened" timber.

In sum, Mr. Chairman, The Wilderness Society and NRDC recognize the economic problems that the sponsor of these bills have addressed (A perceptive column by Colman McCarthy is attached.) We hope that our suggestions for improvements, if adopted, will widen the base for its support in Congress and among the conservation community.

F2 Sunday, November 28, 1982 THE WASHINGTON POST

The Knotty Problems of the Northwest's Timber Industry

PORTLAND, Ore.—While the rest of the country still has reasonable hope that an economic recovery is possible and laid-off workers will again have jobs, no similar optimism is found here. Too much of the economy has been tied to the fortunes of the timber and wood-product industries. For many workers, those fortunes are poor and getting poorer.

The housing slump was one part of the decline. But even if housing unslumps, the economic base

Colman McCarthy

of commercial forestry has been irreversibly shifting to the South.

Trees are faster-growing in southern woodlands, because sun and water are more abundant. Labor is cheaper, unions weaker. More of the land is privately owned, which removes timbering regulations that prevail in federal forests. Corporate taxes are low.

The South is the timber industry's Promised Land. The Conservation Foundation, citing an industry study, notes that nearly 70 percent of the "profitable opportunities nationwide for future timber management" are in the South.

In Depression-like Oregon, where mills and logging operations have been closing or curtailed at record rates, unmistakable evidence of social disintegration has been seen. The high unemployment has been linked by police and public-health officials with rising crime rates and increasing domestic violence. In one rural mill town in 1980, 470 workers lost their jobs in three layoffs. Each time, alcohol sales in the town rose by 20 percent. An official of the International Woodworkers union stated the obvious: "As unemployment rises, there is a corresponding increase in the need for social services, but the terrible irony is that, as community tax receipts shrink, many of these services are cut back."

What should be done?

A partial answer is found in some of the provisions of proposed timber-relief legislation. Sens. Mark Hatfield (R-Ore.) and James McClure (R-Idaho) are attempting to bring to a vote before adjournment a bill that would allow companies to terminate a portion of their timber contracts that were made at high prices before the recession. The prices that companies can get for the wood today are much lower than what they originally contracted to buy it for.

"In Oregon and Washington," according to Hatfield, "there is about 20 billion board feet of government timber under contract. As much as 75 percent of the volume under contract bid as of Jan. 1, 1982, cannot be economically harvested, resulting in a potential default situation of drastic proportions."

The knotty problem in this relief legislation is much like giving to charity: Will the money get to the people who need it the most? The small and medium-sized companies, including family-owned operations, have reasonable claims for federal help. They easily meet anyone's hardship tests. But the large and economically healthy companies don't. They can ride out the tough times.

Sen. Howard Metzenbaum (D-Ohio) wants to put a chain saw to the idea of federal largesse to the high-rollers. "The federal government should not allow these companies to totally escape the terms of the contracts they signed, at the expense of the taxpayers and the companies' competitors. Yet that is exactly what (Hatfield-McClure) does."

The legislation gets worse. Timber companies, under existing law, are allowed financial credit for building roads to get at the timber. For a road into a timber stand worth, say, $50,000, a credit up to $50,000 is given for the road costs. Under Hatfield-McClure, the credit could be fatter. A company could be reimbursed double, even triple, the value of the timber: $150,000 in road costs for $50,000 in wood. As Peter Kirby, an environmental lawyer for the Wilderness Society, testified before Congress, "The Treasury would, in effect, be paying timber companies to take federal timber for free."

McClure sides regularly with the large timber companies. The real need in Oregon and Washington is to have more work on reforestation and timber-stand improvement to better long-run productivity of the land, which, in turn, would benefit the nation. This bill is weak on those issues.

It's regrettable that Hatfield, a politician of conscience, has aligned himself with McClure to back legislation with so many flaws. Hatfield, of all people, ought to know how to get compassionate help to the citizens who truly need it, while telling the well-off companies to absorb their losses as part of the free-enterprise game.

Senator HATFIELD. Thank you very much.
Mr. Baird.

STATEMENT OF DENNIS W. BAIRD, DIRECTOR, IDAHO ENVIRONMENTAL COUNCIL, IDAHO FALLS, IDAHO

Mr. BAIRD. Thank you, Senator. The Idaho Environmental Council, like other northwest conservation groups, takes little pleasure in seeing sawmills close, and we do not intend to oppose the contract cancellation provisions of this legislation. We do hope if sales are canceled those reoffered first will be those in areas already roaded.

We are strongly concerned about the impact on the State of Idaho of the purchaser credit provisions. In general, purchaser road credits are a source of worry and a source of concern to us. Attached to my testimony are some figures on the amount of dollars involved. It will rise perhaps $300 million in the forthcoming budget, and Senator McClure will know that that represents about two-thirds of the State budget of Idaho. It is a lot of money involved.

Moreover, not all roads built under purchaser credits are in fact multiple-use roads. The Forest Service has always debited those to the timber budget, appropriately so I think. They tend to be timber roads. It is the appropriated money which is building through multiple-use roads in the national forest. In Idaho, there have been some instances of purchaser road credits misused to build multiple use roads, but those are rare now.

There is also a vast amount of error available in the purchaser road credit system. Historically there have been no audits of the program. The Forest Service credits the companies with the amount of money that the Forest Service thinks will be needed to build a road. Whether that is what is needed no one knows. It is based on regional numbers, but it is the best guess. There have been numerous timber sales in the State of Idaho where very few amounts of timber have been involved, but substantial roads have been involved, and those have been bid up because of the profits to be made simply building the road, and so that is the sort of concern.

We are not anxious to see road credits expanded due to those historical problems with road credits in general, although we are not advocating an end to road credits. Our deepest concern in this legislation is the transformation of ineffective road credits to the effective. In effect it would be done by declaration. Something that is profoundly uneconomic is declared to be economic in this legislation. The rather weak economic tests that are provided in the National Forest Management Act would be cut by this legislation and the trend toward uneconomic development increased.

Roadless areas in general will be threatened by road credits acquired from elsewhere. This represents nothing more and nothing less than yet another raid on the Treasury to transform something that is uneconomic reality into something that is said to be economic. It is curious to see the change in the position of industry in this matter. They testified in 1975, and I have both hearings, Senate and House, with me, in which they testified the kind of road credits that became transferrable within—the national forest industry testified that uneconomic credits were not even an issue. Ineffective credits were not an issue. They were only concerned about the effective credits. Now we are back at the trough again, unfortunately.

There are other concerns—the transfer provision again because of the regional variability in road credits. There are regions where road credits have been generous and those then would be traded, sold, or there might be a futures market for all we know for road credits arising out of all this which would skew the historical building practices on national forests.

It might be possible I suspect for the Congress to pass a law that would declare night, day, and certainly it would be possible for Congress to declare these sort of ineffective, uneconomic road credits to be effective. In either case, it makes it reality. However, in the case of road credits, the already wounded Treasury would be further harmed by this making something that is not economic into something that is said to be economic.

Thank you.

Senator HATFIELD. Thank you.

[The prepared statement of Mr. Baird follows:]

Idaho Environmental Council

TESTIMONY OF DENNIS W. BAIRD, A DIRECTOR OF THE IDAHO ENVIRONMENTAL COUNCIL ON S. 916 and S. 848, BEFORE THE SENATE SUBCOMMITTEE ON PUBLIC LANDS ON FRIDAY, 22 APRIL 1983.

I am Dennis Baird, of Moscow, Idaho. I am a Director of the Idaho Environmenal Council (IEC), on behalf of which I am testifying IEC was established over twenty years ago to promote conservation and economically sound use of the public lands in the state of Idaho. It has several hundred members located throughout Idaho. Our concern in testifying here today is to insure that contract terminations benefit the needy and not harm wilderness values, and that what IEC views as the genuinely diseconomic elements of purchaser road credits not be expanded in any way.

TIMBER SALE CONTRACT TERMINATION

While recognizing the potential for harm to Idaho sawmills from the contract termination provisions of the proposed legislation, IEC recognizes that the nation has little to gain if dozens of other mills are forced into bankruptcy. We do not oppose this provision of the legislation but strongly urge that it be amended to provide that cancelled sales be ordered reoffered for sale by the Forest Service before sales in areas as yet undeveloped. It makes no sense to us, in light of the substantial USFS investment in preparing these sales, to drop them in favor of risky, yet more expensive sales planned for marginal roadless areas. With such an amendment, both industry and wildlands will benefit.

PURCHASER ROAD CREDIT EXPANSION

IEC has strong objections to every single element of purchaser road credit expansion contained in S. 916. These changes in the purchaser credit sections of law last enacted in 1975 pose a major threat to roadless lands nation-wide, completely contradict timber industry arguments of 1975, and offer a severe blow to sound economic principles of forest management. Our objections are both conceptual in nature, as well as specific.

Conceptual Objections to Credit Expansion

1. Why now and why this bill? In 1975, when, over USFS and GAO objections Congress extended the transfer of effective purchaser road credits to other timber sales within the same forest, industry argued that only effective credits should be transferred, and that to avoid incredible bookkeeping and other economic problems, such transfers should be limited to sales within a particular forest. Conservation groups agreed with those very sound arguments and supported the legislation. Since then, nothinghas changed in any way to modify these sound timber industry arguments. Credits that arise from deficit timber sales generally remain ineffective, since they continue to fail to cover even base rates. Rather than using economic trickery to make such road credits effective, IEC suggests that Congress inquire as to why such sales are being offered in the first place. Ineffective credits are almost always linked to uneconomic sales in marginal lands--sales that should not be offered in the first place. They may also be linked to continual USFS efforts at overbuilding roads meant only for timber haul. Getting at the root of the problem seems far better than using uneconomic means to declare such credits effective.

2. S. 916 addresses a temporary problem and offers one-time solutions. The purchaser credit provisions of the bill are permanent, and would warp forever the normal economic and bidding provisions for timber sales. These road credit provisions are non-germane to this legislation in the fullest sense.

3. The promoters of the purchaser credit provisions portray such road projects as multiple-use roads serving a multiplicity of the nation's needs. In fact, almost all roads built using purchaser credits are single-purpose, timber haul roads. That is precisely why the Forest Service has for years correctly debited them against its timber budget. In no state is there a demonstrated and growing need for more recreational roads, or more roads to aid fish and wildlife. Idaho alone has well over 100,000 miles of roads, enough to satiate the most jaded road lover, and for many years it has been the position of the Idaho Fish and Game Commission that the state already has too many roads for sound fish and

wildlife management. Similar situations exist in most other states as well, while most states report a shortage of lands suited for unroaded, primitive forms of recreation. Even trail bike users seek out natural appearing places rather than those heavily laced with timber haul roads.

4. The scale of purchaser road credits, even under existing law, is enormous, as shown on the attached chart. Literally thousands of miles of purchaser credit roads, all built with effective credits, are being constructed yearly. In view of the huge magnitude of such projects, arguments that yet more must be done are not founded in fact.

Even the current system of purchaser road credits is filled with problems and room for major error and harm to the Treasury. So great are these general problems with the existing system that to suggest expansion and broadening of road credit provisions would be both unwise and wasteful. Some of the general problems with purchaser credits include these:

A. Road credit levels are established by Region and often fail to consider local variability. On some forests, credit levels have historically been low, on other, credits have been far too generous. Users operating on the same forest have had to live by the same rules, so credit levels have had the same impact on all purchasers. Expansion of credits from forest to forest would enable large buyers to unfairly take advantage of this system wide variability.

B. No audits have been done to insure that credit levels reflect reality. While the timber industry has argued for years that it can build roads far more cheaply that the Forest Service, road credit levels are based on what the Forest Service believes it could build the road for itself. Thus there is often a major gap between reality as seen by industry and as seen by the Forest Service. Into this gap falls a vast amount of money that otherwise would have been returned to the Treasury. This gap between the two levels of road cost reality has often led to timber sales being artificially bid up to high levels--bid up not because of high timber values but because of high potential profits from the road building segment of the sale. This problem is probably inherent in the system, but its impact would become even more perverse if such "ar tificial" credits could be sold, swapped, or moved from

Region to Region.

C. The Congressional Research Service study on this legislation makes it clear that purchaser credit expansion will chiefly benefit large firms, a point with which IEC fully agrees. Firms operating on several forests are more likely to have obtained such surplus credits. They are more likely to have their own, fully-amortized road building crews--and thus have the chance to build specified roads far more cheaply than credits given them by the Forest Service. IEC doubts that the nation will be well-served by legislation that encourages more centralization, larger firms, and in the end, less genuine competition. Such interference in the natural market place has been shown to be clearly counterproductive.

D. Even the current system of granting purchaser credits has had an adverse impact on returns to the Treasury, and this raid should not be expanded and broadened. For many years, the 25% fund returns to counties were based on net returns to the Treasury. Timber sales in marginal areas which produced ineffective road credits, and deficit sales in general produced no net profit to the nation and hence no funds for return to the counties. However, Congress, in its wisdom, has now based such 25% fund returns on the gross value of the sale, even if in fact it loses money for the nation. Under this new system, many timber-dependent communities simply cannot lose, and there has been a sharp growth in political pressure to log and develop lands that are marginal or uneconomic for timber. The gross returns system in fact encourages diseconomic use of scarce money. However, this raid on the Treasury at least benefits local schools and governments and it is limited by the fact that ineffective road credits cannot be transferred anywhere, not even on the same forest . Industry argued against making ineffective credits effective in 1975. The argument then, and it remains sound now, is that if you make your bed by buying a sale with high road costs and low timber values, then you ought to be willing to lie in it and accept the normal consequences of such a risk. IEC agrees with this sound business principle.

Ineffective vs. effective purchaser road credits

If, after so-called "base rate" costs (e.g., slash disposal, reforestation, but not sale preparation costs) are deducted, not enough credit remains to pay the total costs of the timber haul roads as estimated by the Forest Service, such credits are said to be "ineffective". The purchaser of the sale does not necessarily lose money--the value of the timber may go up, he may be able to build the specified road for far less than the credits allowed, etc. However, the Treasury (i.e., the taxpayers) clearly makes no money on this sale, since not even sale preparation costs are recovered. A somewhat dubious new asset--a road--is acquired, but it must then be maintained.

The amount of ineffective credits is rising and is likely to continue to do so. For the most part, the higher class timber sites have been accessed with roads, and those that remain are highly likely to have associated road access costs that greatly exceed any possible timber values. One quite sound economic argument suggests that perhaps other uses for such marginal lands (e.g., wilderness) would be best, thus avoiding unwise investment on poor sites and eliminating most of the ineffective purchaser credits. Making ineffective credits into something that they are not--into effective credits--is simply bad business. Still less money will reach the Treasury, the net losses of the Forest Service will increase, and lands where timber development is far from the best economic use will seem artificially to become "ecomomic". This concept thwarts the very real concerns shown by Congress in the National Forest Management Act (NFMA) when it sought to keep the Forest Service out of lands where timber costs exceeded timber values. Tampering with road credits that really are ineffective artificially skews the important cost/ value equation demanded by NFMA.

Conclusion

If Congress is genuinely concerned about seeing the public lands run in a sound, businesslike manner, then it will reject that unwise injection of purchaser credit issues into what is an honest and important debate on the future of mills facing unrealistic contract demands. The permanent nature of the purchaser credit changes, coupled with the scope of the raid on the Treasury envisioned by redefining ineffective credits, make separate hearings and separate legislation mandatory.

HISTORICAL LEVELS OF PURCHASER ROAD CREDITS

	IDAHO		NATION	
FY 1976	947.2 miles	$12,288,800	13,101 miles	$164,127,200
FY 1977	896	12,684,000	8,572	158,626,000
FY 1978	1039	16,896,000	9,759	191,241,000
FY 1979	819	16,772,000	10,042	220,194,000
FY 1980	967	20,990,000	9,561	255,875,000
FY 1981	782.4	16,844,000	8,835	248,110,000

Source: Annual Report of the Forest Service

PURCHASER ROAD CREDIT LEVELS ON THE NEZPERCE NATIONAL FOREST

Pre-1977	$2,600,000
FY 1977-79	7,700,000
FY 1980-81	3,100,000
FY 1982	1,700,000

Source: Nezperce National Forest
Land Use Planning Section

STATEMENT OF CONNIE M. MAHAN, WASHINGTON REPRESENTATIVE, THE NATIONAL AUDUBON SOCIETY, AND THE SIERRA CLUB, WASHINGTON, D.C.

Ms. **Mahan**. Mr. Chairman, my name is Connie Mahan. I am the National Audubon Society Washington representative. I am submitting testimony on behalf of the National Audubon Society and the Sierra Club.

We recognize that the timber industry has been hit very hard by the current recession and believe that the revival of the timber and building industries must be an important element in the recovery of the economy as a whole.

Thus we are examining the legislation under discussion by asking two fundamental questions. First, will this legislation help timber companies deal with the problems related to the current economic climate? And second, how will this legislation affect sound long-term multiple use management of our federally administered forests?

With certain clarifications and qualifications, we view the termination and extension language in this legislation which has been introduced as relatively neutral from an environmental standpoint. However, we are very concerned with other sections of 916 in particular.

We do not oppose the language in S. 916 and S. 848 permitting outright termination of 40 percent of Federal timber sales contracts. We believe, however, a showing of economic hardship before contract modifications of any kind are permitted is a sound idea which should be added to the bills since the Federal Government must enforce the concept that a contract should be fulfilled except in truly dire circumstances.

The language guiding resale of timber from terminated contracts should be refined by adding a provision requiring that the same sales that are terminated be recovered and sold again before any new sales are offered in roadless lands. Such a mandatory prioritization policy would have the effect of reducing conflicts between logging activities and the protection of roadless areas, and such provision makes economic sense since all the work to prepare for those sales has already been completed.

With the inclusion of such language requiring the reoffering of terminated sales before new sales were offered we do not oppose legislation permitting contract termination.

The Sierra Club and the National Audubon Society strongly oppose section 6 of the S. 916 which would allow the conversion of ineffective purchaser road credits. Including this provision in such legislation would mean that the timber companies would be given credit for road costs in excess of the price of a timber sale. Such a policy would inevitably result in a dramatic increase in bidding for deficit sales since they would now have a value beyond that of the timber offered. There would be no constraints on timber harvesting due to costs of road construction, and the Forest Service would get into situations in which it would actually have to pay to have timber cut instead of being guaranteed a minimum price. This proposal would then add to Federal deficits.

We also oppose language in section 6 of S. 916 which would permit purchaser road credits to be transferred from one national forest to another and from one purchaser to another. This provision has nothing to do with the recession and would create incentives to cut timber on unsuitable land. Both of these issues were analyzed last year in a Congressional Research Service report dated June 2, 1982, by Robert Wolf. I request that this report be made a formal part of this hearing record.

Senator **Hatfield**. It will be received for the committee files.

Ms. **Mahan**. We are somewhat concerned that section 10 of S. 916 and section 8 of S. 848, both of which create emergency salvage programs, could be misused to fund timber cutting and road building on unsuitable lands. While we applaud the goal of increasing reforestation efforts, we can find no justification for establishing the new program when the authority for offering salvage sales already exists.

In summary then, the Sierra Club and the National Audubon Society do not oppose legislation which simply allows the termination of Federal timber sales contracts, but we feel such legislation should require the resale of terminated contracts first and should not become incumbered with nonrecession related issues such as road credit conversions or transferability.

Thank you.

[The prepared statement of Ms. Mahan follows:]

TESTIMONY OF CONNIE M. MAHAN

NATIONAL AUDUBON SOCIETY WASHINGTON REPRESENTATIVE

ON BEHALF OF THE SIERRA CLUB AND THE NATIONAL AUDUBON SOCIETY

Mr. Chairman, my name is Connie Mahan, National Audubon Society Washington Representative. I am submitting testimony on behalf of the National Audubon Society and the Sierra Club. These two national conservation organizations together represent more than 800,000 members. On August 12, 1982, John Hooper of the Sierra Club provided testimony on similar legislation before the Senate Subcommittee on Forestry, Water Resources and Environment.

Both the Sierra Club and the Audubon Society have worked since their beginnings to encourage forest practices which will both assure a sustained yield of high-quality timber from our federally-administered lands and protect other values for which these lands are required by law to be managed. Our members throughout the country have worked for years -- and continue to work -- to protect significant roadless areas as wilderness, to protect wildlife values, fisheries and clean water sources. We believe that the maintenance of a healthy timber industry is compatible with our goal of sound forest management. We recognize that the timber industry has been hit very hard by the current recession and believe that the revival of the timber and building industries must be an important element in the recovery of the economy as a whole. At present, our members are working closely with Forest Service personnel throughout the country on individual forest plans to encourage a move away from cutting timber on lands which are economically or biologically unsuitable for timber production. Thus, we are examining the legislation under discussion today by asking two fundamental questions. First, will this legislation help timber companies deal with problems related to the current economic climate? And second, how will this legislation affect sound long-term multiple-use management on our federally-administered forests?

With certain clarifications and qualifications, we view the termination and extension language in the legislation which has been introduced as relatively neutral from an environmental point of view. However, we are very concerned with other sections of S 916, in particular.

The federal government has already taken steps to help alleviate the economic plight of the industry; both the Department of Agriculture and the Department of Interior have adopted extension policies for companies with federal timber contracts. The agencies already have that authority. The Forest Service is presently studying other administrative remedies to permit timber companies to terminate contracts.

We do not oppose the language in S 916 and S 848 permitting outright termination of 40 percent of federal timber sales contracts. We believe, however, a showing of economic hardship before contract modifications of any kind are permitted is a sound idea which should be added to the bills, since the federal govenrment must enforce the concept that a contract should be fulfilled except in truly dire circumstances.

The language guiding resale of timber from terminated contracts should be refined by adding a provision requiring that the same sales that are terminated be re-offered and sold again before any new sales are offered in roadless lands. Such a mandatory prioritization policy would have the effect of reducing conflicts between logging activities and the protection of roadless areas. And such a provision makes economic sense since all the work to prepare for those sales has already been completed.

With the inclusion of such language requiring the re-offering of terminated sales before new sales were offered, we do not oppose legislation permitting contract terminations. This is a legitimate method to help timber firms with federal timber sale contracts get through the recession.

The Sierra Club and the National Audubon Society strongly oppose Section 6 of S 916 which would allow the conversion of "ineffective" purchaser road credits. Including this provision in such legislation would mean that timber companies would be given credit for road costs in excess of the price of a timber sale. Such a policy would inevitably result in a dramtatic increase in bidding for deficit sales, since they would now have a value beyond that of the timber offered. There would be no constraints on timber harvesting due to costs of road construction and the Forest Service would get into situations in which it would actually have to pay to have timber cut instead of being guranteed a minimum price. This proposal would then add to federal deficits.

We also oppose language in Section 6 of S 916 which would permit purchaser road credits to be transferred from one national forest to another and from one purchaser to another. This provision has nothing to do with the recession and would create incentive to cut timber on unsuitable lands. Both of these issues were analyzed last year in a Congressional Research Service Report dated June 2, 1982 by Robert E. Wolf. I request that this report be made a formal part of the hearing record.

We are somewhat concerned that Section 10 of S 916 and Section 8 of S 848, both of which would create emergency salvage programs, could be misused to fund timber cutting and road building on unsuitable lands. While we applaud the goal of increasing reforestation efforts, the justification for establishing a new program with appropriated funding is not clear.

In summary, the Sierra Club and the National Audubon Society do not oppose legislation which simply allows for the termination or extension of federal timber sales contracts. But such legislation should require the resale of terminated contracts first and should not become encumbered with non-recession-related issues such as road credit conversions or transferability.

Thank you.

Senator **Hatfield**. I thank each one of you for appearing here today and for your testimony. I would like to call John Hall and Paul Ehinger.

STATEMENT OF PAUL E. EHINGER, EXECUTIVE VICE PRESIDENT, WESTERN RESOURCE ALLIANCE, EUGENE, OREG.

Mr. **Ehinger**. Senator Hatfield, I am grateful to be here today to discuss the separate pressing problems which are new to me as a newcomer to this arena, but certainly are not new to you. I have a written statement to submit bringing the parallel to the administration's position on natural gas pipeline gas in the form of termination of contract and so forth.

Through the process that we are asking to be reviewed here, the administration clearly is willing in this case to suggest that contracts be terminated between private parties by law, about 30 percent termination, because they feel that we have an untenable situation that developed out of what was foreseen to be an energy shortage a few years back, just as the people in this industry perceived there would be a wood shortage a few years back and did things that seemed prudent at the time but have turned out to be unwise. I won't belabor the point on that testimony.

I think it is perhaps more important that I review a few things and correct a few things for the record that have been said today. I think they are somewhat important not to leave in first impressions that were given earlier, and I would like to go back to Mr. Cheek's testimony because Mr. Cheek went at great length to allude to various motives to various people and suggest what we did or didn't do, and I believe you covered the issue of where he suggested that his views were not wanted.

In turn, Willamette Industries has been identified as they specifically ruled out default, and their annual statement has not said that, and John Davis who was here earlier today who is part of the corporate team that reviews that said no decision has been made on their defaulting of contract. I have no way of knowing the accuracy of the other statements, but I think it is premature for anyone to try to identify motives and corporate strategy of other corporations when they are still in the process, and Willamette and some other corporations have been in that process for some time.

He later attributes the fact that there was a list of injured contractors supplied by supporters of termination last year, including many companies who oppose the bill. No such list was ever supplied by the supporters. Mr. Wolf in his document that he wrote alleged that certain figures that he had were a part of a Western Resource Alliance paper which was simply not true, and that thing is carried on through. We have never made an identification of injured parties, nor said they were.

Senator **Hatfield**. The committee is completely aware of that document and its faulty character and its inaccuracy. It has no standing in this committee.

Mr. **Ehinger**. Mr. Cheek goes on further to grudgingly concede——

The **Chairman**. The Senator was authorized to speak for me as well.

Senator HATFIELD. I incorporated all the committee.

Mr. EHINGER. Mr. Cheek grudgingly concedes that Federal relief should probably be heard, and I emphasize "probably" if somebody could prove bankruptcy, and I would like to say to you, Barbara Webb was in here this morning pleading a very eloquent case.

Now I would like to compare Barbara Webb's situation with Mr. Cheek's company's situation. Last year Mr. Cheek's company cut 352 billion feet of private timber for $4.1 million. That is around $11 to $12 a thousand. These figures came out of their annual report, and they are only figures, not conclusions.

Barbara Webb's company, Webco, held one timber sale for roughly 10½ million feet which also has the same price tag of approximately $4.1 million.

Now obviously Mr. Cheek is in the catbird seat with his company on 360 million, and Ms. Webb is very much in trouble because of her situation, and you heard her say that they thought they were being prudent in their bidding, and I think this is a point we all have to get, that many of these people did what prudent people thought was right and proper at the time and were not a bunch of wild speculators, but as Ms. Webb so eloquently said, she was trying to preserve their company, preserve their job, preserve the livelihood that had been there their entire life.

Later on Mr. Cheek refers to the fact that the west coast people all of a sudden are over 100 percent in production. I would like to get the latest Western Wood Products sheet which I happen to have in front of me, and I think shipments are always a better measure of how you are doing.

A year ago the coast region was shipping 61 percent of normal. The inland region was shipping 56 percent. This year they are shipping 87 percent versus 81 percent—almost identical figures—and if you take last week instead of the week he chose on shipment, we were 89, 84, about 5 percentage points different, which shows that extreme consistency of the process.

He also alludes to the fact they were forced to shut plywood plants down and curtail it when plywood in September of last year was $17 below their cost. I only submit to you that it was at $15 earlier, and by that time that the $17 market kept going up as the cheaper timber came in the market. The relationship simply is not there.

I would also point out that there has been a curtailment of, complete curtailment of over 20 plants in Oregon for an indefinite period of time still going on in the latest APA report which shows 21 plants nonoperating, 13 curtailed, and a loss in effect of employment of over 2,871; where in Idaho there are 110 employees affected and 2 curtailed plants, one of which must be Mr. Cheek's plant.

All I am saying is some of the figures that have been floated around rather loosely here, they don't bear on the facts and I think we have to be very concerned.

I would make one comment on Mr. Harrison's statement simply because the fact that has been used previously came up again, has been misidentified. It is stating that the western lumber enjoyed approximately 14 percent of the southern market in 1981 and moved up to 17 percent in 1982 after short-term timber sales were offered in the first half.

Two things—none of the short-term timber sales were on the market in that period of time, but second, the figures which were used before and were produced out of WWPA said that 14 percent of western shipments increased to 17 percent of western shipments and had no relationship to the southern market. It was not a present situation of the market.

Second, it is very logical that western lumber has moved down into that area because when you go back to November of 1981, Douglas-firs, 2 by 4's, and southern pine 2 by 4's, were selling at about $160 FOB mill at each location. Over time because of an active housing market in the South all throughout the Sun Belt, southern pine prices moved up. They are $60 to $70 beyond what west coast Douglas-fir prices were, and as anyone knows, in market economics there will be some movement of lumber into the higher priced market very simply.

Last year in Oregon the private timber harvesting increased by a full 10 percent while the public timber dropped by well over 30 percent, so I just point out that if public timber was the cause of the problem, it certainly is not verified by the facts, and I think that the situation is such that it takes some very strong attention and some very good looking at the figures because the conclusions that have been drawn on market dislocations simply do not square with the facts.

I thank you.

[The prepared statement of Mr. Ehinger follows:]

BEFORE THE SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER OF THE COMMITTEE ON ENERGY AND NATURAL RESOURCES

TESTIMONY OF
PAUL F. EHINGER
WESTERN RESOURCE ALLIANCE
APRIL 22, 1983

Mr. Chairman, members of the Committee, my name is Paul E. Ehinger. I am Executive Vice President of Western Resource Alliance and I am appearing today on behalf of Western Resource Alliance, an organization of western companies dependent on federal timber for their resource base.

Mr. Chairman, we appreciate the opportunity to present our views on S. 916. Our members purchase timber primarily under contracts from the federal government. Because of current market conditions which were unforseeable and government sales policies over which the industry had limited control, they are committed to contracts for purchase of public timber at prices, which if paid, will drive them out of business. Congress must act now to prevent economic chaos in the Pacific Northwest.

There are many similarities between the crisis in the timber industry and the one now facing the natural gas industry. In the natural gas industry, producers are unable to sell much of the gas they produce because prices are kept artificially high. These high prices were locked in at a time when everyone predicted that there would be a continuing shortage in supplies and that costs of energy would continue to skyrocket. Pipelines, to ensure a future source of supply, were forced to make long-term commitments to purchase minimum quantities at unprecedented prices.

Likewise, in the '70's, the Pacific Northwest timber industry, much of which is almost totally dependent on the federal government for timber, was faced with a real shortage of future supplies of timber. In the face of these predicted shortages, competition for future supplies was intense. Timber purchasers were forced to commit to unprecedented high prices in order to ensure a source of timber. Because there is no alternative in the purchasing practices, they could not have provided in advance for the economic slump which followed.

What has happened in both the natural gas industry and in the timber industry is well known to you. In the natural gas industry, prices are now so high, in comparison with other fuels, that gas is not competitive. Pipelines are obligated to purchase large quantities of gas at prices at which they cannot sell all that they must purchase. Large industrial consumers of fuel have switched to oil which is much cheaper. The small consumer, for whom it is not practical to switch fuels, is naturally outraged that prices are so high when supplies are so plentiful. Because this market distortion is causing economic chaos, it is likely that Congress will step in to take corrective action. Nearly all the natural gas bills pending before Congress contain provisions which will void contract provisions which make gas unmarketable.

The lumber industry which is dependent on public timber is in a similar predicament. They had no alternative in the late '70's but to sign contracts at the then prevailing market rates. These were take-it-or-leave-it government contracts in which no contingency provisions were permissible. Now lumber producers are obligated to purchase timber at unmarketable prices. They will be driven out of business if they are forced to purchase this timber, and these business failures will help no one. These business failures will reduce competition, force other prices to rise, and ultimately will have a disastrous effect on the national housing market.

Congressional action with respect to timber contracts is much easier to justify than action with respect to gas contracts. Voiding or modifying natural gas contracts involves a legislative interference with private contract rights. This raises substantial constitutional issues. In contrast, timber contracts are contracts with the federal government. No private rights will be injured if these contracts are voided or modified. A market distortion will be avoided, and communities which will otherwise suffer will be saved.

Legislative modification of timber contracts is a common sense response to a market disorder which only Congress can correct. We urge you to take this action, much as you are considering similar action in the natural gas area, as another way of giving the housing industry a needed boost of holding prices down for the consumer and getting the economy back on course.

STATEMENT OF JOHN HALL, VICE PRESIDENT, RESOURCES AND GOVERNMENT AFFAIRS, NATIONAL FOREST PRODUCTS ASSOCIATION, WASHINGTON, D.C.

Mr. **Hall**. Thank you, Mr. Chairman. I am John Hall with the National Forest Products Association. The principal statement of the forest industry has been submitted for the record by John Davis earlier, and that is our summary of the issues as we see them. I would like to respond to a few of the other issues raised today.

You, Senator McClure, and Senator Jackson all chided the industry for our bidding practices and recommended that there be some attempt to control those.

There are several ways that can be done. First and foremost would be collusion among the purchasers which I am sure you are not encouraging or countenancing which is illegal from the outset.

Other areas that might be looked at, of course, are an assured and increased timber supply. RARE II will be one of the actions you might do. Resolution of that issue would help in that direction, as would, of course, continued appropriations for the Forest Service to move from the current timber sale offering levels up to around 14 or 15 or some other billion board feet, which is possible within reasonable environmental and economic conditions.

Another alternative would be the administered price level accompanied by allocations to the specific companies that would assure that the priced timber moved into commerce at some pre-determined price.

The fourth alternative was that Mr. Shotts and Mr. Davenport have addressed earlier this afternoon, and that would be to limit the opportunity for purchasers to participate in the bidding, bidding qualifications or other methods designed to hold down those who might come to participate.

All of those are highly controversial within the industry and we don't have a position to offer you at this time on any of them. However, those are areas that probably ought to be looked at if we are concerned with reducing what the bid price might be on Federal timber sales.

Now I appreciate Senator Hatfield's inserting into the record today the draft statement of John Crowell because that does put squarely before us in formal language the so-called buy-out proposal of the administration which while still in a tentative form has been alluded to from time to time by Secretary Crowell in both hearings and speeches. This is the first time some numbers have been associated with it. Here again, too, we don't have an industry position as such other than some concerns, some identification of issues that will need to be addressed.

In discussions I have had with folks in the forest products industry, the 18-percent figure John suggests is far too high. It does not provide a reasonable solution to the issue.

Further, we suggest that the total contract value is an inappropriate base over which to measure the percentage rate that is to be paid for being relieved of contract obligations. Mr. Crowell has suggested 5-year payout at some type of interest. The real problem there exists as to who is going to provide the payment guarantees to companies when their payment obligation may well exceed the company's net worth.

Another item that needs to be addressed is when must a company elect to terminate a sale? Right now at the beginning of each year or at the expiration date of the contract? This can have a significant impact on a company's decisions.

Quite a few other areas need to be addressed in the buy-out concept. Frankly, we think that S. 916 is a far better solution. Additional times on extensions without payment obligations or contract term adjustments would be of some help to some companies. However, it is insufficient across the industry. It merely pushes the problem further back in time. S. 916 is a better solution.

Most of the witnesses here today have supported some type of change, some type of relief from the current situation. The administration in its draft position has recognized that a situation exists that needs attention and while it opposes S. 916 does come forward with a proposal. The administration also tentatively supports the modifications in the purchaser credit provisions as long as they are prospective rather than retrospective.

You are also aware I am certain of a couple of lawsuits which have been filed within the last month, one by a single company in Oregon and another by a county in Washington, and I cite these just as indications of the desperate nature that some companies and some communities are looking at the issue and trying to assure their continuance.

I don't know what the success of those lawsuits will be. I think all of us would prefer a legislative solution. We think we have done our best in coming up with the proposal that both Senators Hatfield and McClure asked that the industry meet and try to work out. We have done that. We have done our best. The bill as introduced represents the bulk of those agreements, and the background presents our arguments in support of those issues, and you have taken on a tough job.

We thank you for doing it, and keep at it.

The CHAIRMAN [presiding]. Senator Hatfield.

Senator HATFIELD. Thank you, Mr. Chairman. I just want to ask Mr. Hall, since he works with the industry, I am fully aware of the difficulty of getting the industry united on anything except wilderness.

Mr. HALL. For or against?

Senator HATFIELD. What would you say would be the basic assessment you would make on the consensus on this timber relief effort that Senator McClure and others and I are making? What kind of support does it really carry in the industry?

Mr. HALL. Relief, a modification of the existing contracts I think carries a high—I don't know what percentage figure it would be—some higher than support merely for the bill, the legislation. As expressed today, there are quite a few organizations and individuals who would support some type of activity. Many of the county officials today said something should be done; S. 916 is one of the vehicles for some other type of activity from their standpoint.

Within the industry our accommodations we have been able to reach among most of us have pointed in the direction of S. 916, but still there are those who like to see some other modification. The

30-percent relief termination figure has been suggested, a 50-percent termination figure; five year additional time or 10 years additional time; some combination. Again, we have gone about as far as we can to present that package as we did last summer and still support it. That's it.

We have our comments and need to develop further comments on the buy-out scheme of the administration, but certainly the issues raised would be among those that are going to be important to us.

Senator HATFIELD. I want to thank Mr. Ehinger for making the analogy with the administration's position on the contract modification in the area of natural gas. Our chairman has carried the burden of that administration proposal here in this committee, as you well know. I think it is a very apt and accurate kind of analogy you make.

The CHAIRMAN. Thank you, Senator Hatfield. Just a couple of comments—I should have said a moment ago when Mr. Stock was testifying what I would like to say to all of the industry today, those who have agreed with the proposal and even though who have disagreed with the proposal. I focused on Mr. Stock's statement because he made a point of the long and arduous negotiations that have gone on in the past, and certainly, Mr. Ehinger, you have been in the middle of nearly all of that, and they have been arduous negotiations, and they have not always been happy ones, but certainly they have been in a spirit of, a good spirit of open exchange of information and of ideas, and I want to commend the industry, even those who have failed to come to an agreement, for having participated in those discussions and made it possible for us to come to some conclusions even though that those conclusions have not satisfied everyone, and I think that is the way it ought to be.

I think the open discussions that have gone on have been extremely beneficial. They have surfaced all of the issues that have been involved. I do have one question that I'm sorry I was called from the room at the time some of the representatives were here, because part of the negotiations, although not those that took place in the Northwest, but among those who were from the Northwest and from California, in negotiations with them, some of the companies operating in both regions, it resulted in the provision in section 5 of the bill that limits Forest Service timber sales offerings during fiscal year 1984, and the bill says, "The Forest Service timber sale offerings for Forest Service region 6 shall not exceed 4.1 billion board feet for fiscal year 1984."

Last year that seemed like a pretty safe level for those who were operating in region 6. With the improvement in the markets today and the anticipated improvements for next year, Mr. Ehinger, is that still a figure you can live with?

Mr. EHINGER. I would like to go back to the agreement which did not get translated into legislation exactly, the agreement we made with the group in the South, and I would say to you that Selma was not a part of the agreement. We were the SFP, a southern forest products association group, and part of the national agreement which was made was one that imposed by 1983 and 1984, 4.1 in 1983 and 4.1 in 1984, but escalating if housing starts moved up and when housing starts reached a level of 1.6 for 3 months, the cap would go off completely at the 5.3 level, assuming we would have appropriations for full allowable cuts.

In the process of marking up last year, that became some controversy of using housing starts as a guideline for any form of allowable or program harvest. I would say at this time we would think if the market comes in at the 1.7, 1.6 level or somewhere around there, it would be wise to review that provision with the possibility of removing it if the escalation went up to those levels.

The CHAIRMAN. I would assume that if housing starts were very robust that at that time lumber prices are also likely to escalate, particularly in view of restricted volumes, and if that is the case, that you may also get rescued by the fact that you could operate on the remaining volumes of the old contracts as well as the new offerings.

Mr. EHINGER. You would have some opportunity to operate on the lower price ones. I think that we went too deep, and for too long to bring it all out, and while alluding to the long-term projections, they were started at a level in 1979. The 1981, 1982, 1983 was bid on escalation for that point, not the present point, but it would help.

The CHAIRMAN. Well, I understand that the Selma was not a part of that agreement. I didn't mean to imply that they were, but that provision was there to respond to the concerns of people in their region. I had thought that was not a terribly unreasonable concession to make to them under the conditions that existed at the time the legislation was drafted, although certainly I heard from a lot of operators in region 6 that thought it was unduly restrictive even then, and it may be people in the southeast are asking for something now or complaining about something that would really have a beneficial effect for them.

Mr. EHINGER. I think everybody through this entire process has seen those in the cemetery of what might happen—what if—and that is just one of the what ifs, but we made judgment calls at the time that in order to consolidate some agreement between the various parts of the country, that was a worthwhile concession to make.

The CHAIRMAN. Senator Hatfield.

Senator HATFIELD. Mr. Chairman, I would only like to comment further that, if you would yield, I was one who resisted the idea of putting a cap on the region. I do not think it is the wisest course of management practice, and as the chairman has indicated, we did this to try to broaden the consensus of the industry, and people concerned, but I would say conversely that if we don't get a bill there is going to be pressure to increase the sales, as Mr. Hall has already indicated, in that very region, region 6, and I think the southerners now, southern pine people, feel that the cap is important to consider this bill at one point, and now that we have checked the entire bill, fear what it might do in terms of the market.

I think the risk is far greater finding the possibility of intruding more in those markets by increasing the sales in region 6.

Would you comment on that observation?

Mr. **Ehinger**. There obviously could be more penetration, but I think that the geographical restrictions fairly well limit, except to the border areas, our penetration significantly in the southern market.

Obviously when you get into some parts of Arkansas, west Texas, we do penetrate. When you analyze what the Canadian penetration has done down there and when you analyze the stumpage system under which they exist at $140 a thousand bid, we have very little chance of overcoming the Canadians' penetration in what would be the dimension market of the south except for those items which by their very nature are long joist and so carry a premium and carry specialty taking, and they do get in there.

Senator **Hatfield**. Thank you, Mr. Chairman.

The **Chairman**. As I had indicated earlier, we thought maybe that would if not buy the support, at least avoid their opposition, and there has been the suggestion since it did neither, maybe we just should pass the bill without that provision at all.

Senator **Hatfield**. Delete it; I so move. We will help them out some time if they have problems.

The **Chairman**. Is there any further witness to be heard? There is none on the list.

[No response.]

The **Chairman**. That will conclude the hearing today. I thank everyone for their attendance.

[Whereupon, at 3:15 p.m., the hearing was adjourned, subject to the call of the Chair.]

CONTRACTS FOR THE SALE OF FEDERAL TIMBER

MONDAY, MAY 9, 1983

U.S. SENATE,
SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER,
COMMITTEE ON ENERGY AND NATURAL RESOURCES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 3:05 p.m., in room SD-366, Dirksen Office Building, Hon. Malcolm Wallop, presiding.

Present: Senators Wallop and Metzenbaum.

Also present: Tony Bevinetto, professional staff member; and Thomas B. Williams, professional staff member for the minority.

OPENING STATEMENT OF HON. MALCOLM WALLOP, A U.S. SENATOR FROM THE STATE OF WYOMING

Senator WALLOP. Good afternoon. The Subcommittee on Public Lands and Reserved Water will hear testimony again today on S. 916 and S. 848 to provide for the orderly termination, extension, or modification of certain contracts for the sale of Federal timber and for other purposes. Both bills have been placed in the record.

We may also receive testimony on other legislative concepts which would address the problems of the timber industry.

The hearing before this subcommittee on April 22, along with those held last year on August 17 and 18, 1982, and in the Subcommittee on Forests, Family Farms, and Energy of the House Agriculture Committee, and in the Senate Agriculture Committee, would and will provide a full, complete, and continuing record on the entire problem.

We have scheduled this hearing to repeat portions of the April 22 hearing to accommodate a member of the committee who was unable to attend the April 22 hearing and at least at the moment is unable to attend this one.

Many of you have traveled long distances to testify here and we have a full witness list, and I would ask you if you could please summarize your written testimony in your oral statements. I ask that we limit the oral testimony to 5 minutes. Your full written statement will be in the record, and the hearing record will remain open for 10 days, but I would urge those who have been asked to respond to questions to do so as quickly as it is possible for you to.

With that, I will begin with Secretary Crowell who is not here, so I would start with the first panel, Mr. John Hall, vice president, resources and government affairs, National Forest Products Association, Washington, D.C., and George Craig, forestry consultant, of that organization, from San Francisco, Calif.

STATEMENT OF JOHN HALL, VICE PRESIDENT, RESOURCES AND GOVERNMENT AFFAIRS, NATIONAL FOREST PRODUCTS ASSOCIATION; ACCOMPANIED BY GEORGE CRAIG, CONSULTANT

Mr. HALL. Thank you, Mr. Chairman. Members of the committee, I am John Hall, vice president, resources, with the National Forest Products Association, and with me this afternoon is George Craig, currently a consultant to the forest products industry and for many years was the executive for Western Timber Association and its predecessor organization, Western Lumber Manufacturers.

As a result of his experience, George is the expert on Federal timber matters dealing with the appraisal, sale, and nuances of Federal timber sale contracts. I was most pleased he was able to be with us today to help review some of the aberrations of the Forest Service contracts which helped create the current difficulty we are addressing, and suggest some resolution to it.

He also had some other prepared comments and would follow me.

Attached to my statement is a new chart which is an update of the chart provided to the committee on April 22. The earlier chart was part of our basic industrywide background paper on the issue. The new chart is an update of the timber under contract situation for the Bureau of Land Management in western Oregon. That chart along with the accompanying one about the national forest timber under contract indicates that there is a significant problem apart from the price bid for Federal timber, and that problem is just the sheer volume of timber under contract which must be harvested in this logging season, the season which is just beginning now.

It is a volume well in excess of the average harvested from those lands in any of the last 10 years, and certainly well in excess of that harvested in the last 2 to 3 years, so the question is of the ability of the market for finished product to absorb that volume of timber currently under contract.

The reason it exists in such a large volume, expiring this year, is the so-called soft 1 and soft 2 extensions made available to the Forest Service and the Department of Agriculture, the grace period made available to operators of BLM timber in the Department of the Interior.

At the April 22 hearings, Senators Hatfield, Murkowski, and McClure chided the industry for what they believe was a reversion to our bidding patterns of the late seventies, with bids that they believe to be far in excess of the timber being conveyed.

Attached to my statement is an article from yesterday's Portland Oregonian which notes the bid prices have been stable for public timber sales, and again it is important to focus on the average bid rather than some individual bids which may be well off the average.

The Industrial Forestry Association in a report just received today notes that for April 1983, there is: "* * * some continued decline in bid prices and a modest upturn in advertised prices on the west side of the region." That is Region 6.

Both bids and advertised prices increased on the east side. Overall bid ratios fell by almost two points."

Almost all of the witnesses at the April 22 hearing supported some type of legislative solution to the current volume under contract situation. That includes spokesmen for State legislatures, county governing bodies, financial community, organized labor, and the Nation's home-building industry. They all sought some type of legislation solution. Most thought that S. 916 was a reasonable solution. Even some of those companies which appeared before the committee in clear opposition to S. 916 indicated support for some type of legislative action and a general willingness to work for a reasonable solution.

The forest industry is not only a victim of its own projections as to what the future would provide, but it is also a victim of its competitive nature, the method by which Federal timber is sold, and most importantly, a victim of the deliberate decisions by the Federal Government to affect money supply, and the rate of inflation back in October 1979. This action contributed to the significant increase in the cost of money and to the mortgage rate for housing, which is our major market.

As a result, all the projections, including those of the Forest Service itself, for the substantial increase in product demand and related prices have not been met.

What we are seeking is the most equitable way out of a very difficult decision. S. 916 involves a substantial part of the Nation's productive economy and a major business of Federal Government. The Federal Government has several interests. I am sure you want to maintain a viable local economy, a healthy productive industry, assured supplies of building materials for a resurgence of the housing and construction, and certainly the health and viability of Government customers in the Federal timber business.

We urge that the committee do favorably report S. 916 for consideration by the Senate, and if you will permit, I would ask Mr. Craig to pick up at this time with some of his comments on Federal timber sale issues.

[The prepared statement of Mr. Hall follows:]

BEFORE THE SUBCOMMITTEE ON PUBLIC LANDS AND RESERVED WATER OF THE COMMITTEE ON ENERGY AND NATURAL RESOURCES STATEMENT IN SUPPORT OF S. 916 FOR MODIFICATION OF EXISTING FEDERAL TIMBER SALE CONTRACTS

APRIL 22, 1983

Submitted By:

INDUSTRIAL FORESTRY ASSOCIATION, Portland, Oregon

NATIONAL FOREST PRODUCTS ASSOCIATION

NORTHWEST INDEPENDENT FOREST MANUFACTURERS, Tacoma Washington

NORTHWEST PINE ASSOCIATION, Spokane, Washington

NORTH WEST TIMBER ASSOCIATION, Eugene, Oregon

WESTERN FOREST INDUSTRIES ASSOCIATION, Portland, Oregon

WESTERN RESOURCE ALLIANCE, Eugene, Oregon

WESTERN TIMBER ASSOCIATION, San Francisco, California

Why S. 916, the Federal Timber Contract Bill, Is Still Needed Despite Recent Improvements in Home Building and Wood Products Markets.

After a three-year depression, markets for lumber, plywood and wood building products are reviving. Conditions are not as bleak as those at this time last year when the forest industry was flat on its back. While the industry is optimistic the current market upswing can be sustained, the problem of the large overhang of federal timber under contract, which is economically inoperable in present or anticipated future markets and beyond the industry's capacity to process during the remaining contract term, is one that will not go away -- even with the wildest upsurge in the market.

Performance on these timber sale contracts, which represent over ten billion board feet of timber and millions of dollars, will be required over the next one to four years. But for many purchasers, performance on these contracts is impossible since contract cost deficits represent as much or more than the net worth of their mills. With interest payments on contract values of the timber coming due, many purchasers face a three-way bind -- they can't pay the interest charges, they can't perform on the contracts, and their only recourse is default, and they know default penalties will force ultimate bankruptcy.

Without a solution to the problem, the uncertainty and continued drag on local and state economies will thwart recovery for many communities and hold down revenues to counties that are earmarked for schools and roads. This affects jobs and economic revival for scores of communities whose livelihoods depend on the forest industry, which in turn is dependent on federal timber supply.

Over the next several months, many federal timber purchasers face tough decisions: whether to perform on the contracts, or to default. For many purchasers there is only one option -- default. But the specter of the chaos with hundreds of defaulted contracts, litigation, penalties, and bankruptcies is unacceptable to many members of Congress and to state and county government officials. They believe the public interest will be better served with a managed solution -- rather than an unmanaged one -- with orderly, specific procedures to terminate and extend contracts. Then the federal government can reoffer the timber for sale, the federal Treasury will not lose money, states and counties will increase revenue sources, jobs will become available in already high unemployment areas, and mills can get about the business of gearing up to meet demand of home building for wood building products. See Appendix A.

I. The Forest Products Industry Supports S. 916.

Forest industry associations and companies began considering, nearly a year and a half ago, whether federal legislation would be both necessary and feasible to alleviate the distress being suffered by many communities, workers and companies. Despite differing perspectives based on such factors as geography, company size and past business practices, most members of the industry have gradually coalesced in support of S. 916. This legislation is designed to save federal expenditures, preserve regional, community and company stability, and avoid a windfall for any particular industry segment.

Not every element of industry is in complete agreement on every point of this proposal. But it has the support of the largest portion of the industry.

This statement will discuss in detail the condition of the industry and need for legislation, and the financial advantages to government of enacting this plan as opposed to taking no action.

II. An Urgent Need for Federal Action has been Created by a Changed Economic Climate, and Prompted in Large Part by Past Inflationary Policies.

A. The Contract Costs for Much of the Timber Established in a Different Economic Environment, Now are Impossible to Meet as a Result of a Changed Economic Climate.

Western Oregon and Washington is the single largest source of lumber and plywood in the United States. Although large companies own significant timber acreage in that area, over half of the timber is publicly owned, with most of the public portion administered by the U.S. Forest Service. Most companies in the area are heavily dependent on Forest Service timber for their raw material, and many are dependent on one or another source of public timber for 100 percent of their raw material. The large number of companies in the region breeds significant competition for this timber, which they must have to remain in operation.

Forest Service timber is typically sold three to seven years ahead of the season during which it actually will be harvested and manufactured into lumber or plywood. During the 1970's and into the start of the 1980's, companies bid for Forest Service timber in part based on their calculation of what products manufactured from the timber would be worth at the future time of harvest. Government and reputable private economists foresaw a continuation of high inflation, moderate mortgage interest rates, and the entry of the post-World War II baby boom generation into its prime home-buying years. In addition to the economic forecasts for the 1980's, there was a feared future shortage of timber resulting from unresolved public policy decisions over how much federal land suitable for timber should be allocated to Wilderness or other uses barring or restricting timber harvest. Based on these assumptions, a housing boom was predicted for the 1980's with high demand for lumber and plywood.

As a result, bids for National Forest timber rose spectacularly. For example, the bid price for Douglas fir, the principal species in western Oregon and western Washington, soared from $41.90 per thousand board feet in 1970 to $432.20 in 1980, more than a ten-fold increase.

The timber bid to high levels in that different economic climate now comprises much of the timber available for manufacture in the present period of lower product prices. Because raw material can typically account for 60 percent or more of the manufacturing cost in a western Oregon or western Washington mill, the price of much timber now is too high for it to be harvested and manufactured at anything short of catastrophic economic loss. In numerous cases, the cost of the raw material alone is higher than the current market value of the finished products without even taking other costs of logging and manufacture into account.

Various estimates by the Forest Service and industry analysts show that as much as 80 percent of the present volume of timber under contract in western Oregon, western Washington and Northern California is economically unharvestable. In western Oregon, the average delivered pond cost (stumpage price, plus logging and delivery cost as appraised at the time of bid) of timber under contract is nearly twice the average market value today for such logs.

B. Markets for Lumber and Plywood are Down as a Result of Lower Housing Starts.

The timber industry is only now beginning to recover from an unprecedented three year recession. The recovery in the timber and forest products industrial sector is still tenuous, and is predicated on a sustained increase in housing starts. 1982 was the worst year for housing starts since World War II. The rate of housing starts was up dramatically in first part of this year, but it is nowhere near the level predicted by government and other forecasters in the late '70's. Real interest rates on home mortgages continue to be at historically high levels, making the current outlook uncertain. Housing is the largest single user of lumber and plywood, and thus the economy of the timber industry follows closely current and anticipated levels of housing construction.

C. Unemployment in Timber Dependent Communities Continues to be Unacceptably High.

For a variety of reasons, including bulk and high carrying costs, lumber and plywood are not inventoried for long periods of time by their producers. Drops in production directly reflect loss of market rather than inventory manipulations.

As a result of production declines in the wood products industry, mill closings and curtailments soared during 1981 and 1982. Into the first few months of 1983, a number of mills have resumed operations. However, layoffs and reduced work weeks continue to affect 25,400 employees in the Northwest sawmill industry alone. Unemployment in the wood products industry nationwide is currently 15.9%. In many communities where the timber and wood products industries are the major employers, unemployment is higher. High priced stumpage on contracts coming due will exacerbate an already difficult and trying situation for many communities. Mills which cannot harvest timber at a profit, or operate at an acceptable rate of loss, will be forced to shut down. See Appendix B.

D. Inflationary Pressure is No Longer a Major Factor in Lumber and Plywood Markets, But It Remains an Imbedded and Inextricable Factor In Binding Timber Contracts Entered Into in the Late 1970's.

There are three major reasons why timber bids went so high in the late '70's. First, government and other forecasts predicted a booming housing market in the early and mid-'80's. Second, constraints on the volume of timber placed on the market by the government resulted in a competition to gain access to an anticipated short supply of timber. And third, continuing high levels of inflation encouraged aggressive bidding. The anticipation was that inflation would continue and that higher prices paid for government stumpage would prove reasonable as prices in all sectors of the economy increased.

The government has made substantial progress in stemming inflation. Lumber and plywood prices reflect much reduced inflation pressure. But, contracts for stumpage coming due in today's market contain an inflation adjustment out of line with today's economic situation.

E. The Loss of Market has Depressed Prices in an Industry where Low Prices Do Not Generate Demand.

With the decline in market for lumber and plywood has come a plunge in the price of these products. According to textbook economics, a drop in sales should lead to a lowering of prices which in turn will fuel new demand that restores sales levels. For lumber and plywood, however, price does not create demand. Rather, demand sets price. Historically, as demand increases, so does price, with little curtailment of demand. But as demand falls, so also does price, with essentially no creation of new demand. This scenario results because housing construction, which controls lumber and plywood demand, increases or decreases as a result of interest rates, not lumber and plywood prices. Although these prices have some significance in setting the price of a house, they play virtually no role in determining whether that house will be built.

Even though recent increases in housing starts have resulted in an upswing in wood product prices, there has not been a recovery to the wood product price level of 1979 -- nor to the price levels that were then projected for 1982-83. Currently, unseasoned Douglas Fir 2X4 lumber, an important product from western Oregon and western Washington, which sold at $310 in September 1979, is selling for $210 today according to the trade publication, Random Lengths.

The basic Western Plywood product ½" CDX sells presently for $192, down from $222 in September 1979.

Another important factor is the surplus of wood chips in a depressed world and domestic pulp and paper market which has resulted in the loss of approximately 30 to 40 dollars per BDU of product value.

III. S. 916 Would Save Money for the Government and Benefit Communities, Workers and the Public Interest.

A. The Choice Facing Congress is How to Make the Best of a Disastrous Situation, Not Whether to Preserve Illusory Benefits that In Fact Already Have Disappeared.

The timber industry has been accused by some of seeking a bailout from the federal government for companies that bet and lost. S. 916, in fact, is not a bailout and is markedly different from relief proposals which have been adopted or discussed for other industries.

The principal money item at issue is the value of the timber under contract. S. 916 has been portrayed by some as if a portion of the original contract value is being handed back to industry. In fact, the portion of that value which exceeds the present value of the timber has already been lost because of supervening market forces. The timber under contract has a nominal value based on the contract prices that were bid up several years ago. But that is far in excess of its real value. The difference in values has disappeared--it has not nor would not go to either the industry or the government.

The notion that the government can capture the original contract value simply by enforcing the contracts ignores the realities of the situation. More to the point is what the government can do to minimize its losses and avoid sending good money after bad.

B. S. 916 Would Not Cost the Government.

No grants, loans or loan guarantees typical of other relief programs are involved in S. 916.

The Office of Management and Budget detailed six major reasons why President Reagan vetoed in late June, 1982, a bill characterized as a $3 billion bailout for the housing industry. These reasons included: (1) government spending cannot create new jobs, only reallocate existing employment; (2) the bill would create pressure for similar bills for other industries and worsen budget deficits; (3) adding to the budget deficit would aggravate interest rates; (4) new federal programs to channel credit to one segment of the economy would choke off activity elsewhere; (5) a reduced deficit is the best relief for housing; and (6) the housing package is a budget buster with unsupported estimates of its effect. None of these reasons is applicable to S. 916 since it doesn't call for federal spending.

C. The Government Would be Unable to Collect Damages from Massive Contract Defaults, and Would Trigger Other Adverse Impacts Even If It Tried to Collect.

The argument that the government should stand firm on high-priced timber contracts assumes that the government can recover the original contract price through a combination of resale and damages if the contracts are defaulted. A purchaser who defaults is liable to the government for the difference between the original sale contract price and the price upon resale of the contract if the latter price is lower. If the resale price is higher, then there are no damages. But in the present economic environment, resale of a contract defaulted due to economic reasons would almost certainly bring a far lower price. For example, Douglas fir stumpage on the west side of Forest Service Region 6 presently is selling for 40% of what it sold for early in 1980. *See* Appendix C.

In order to make its case for damages, however, the Forest Service would first have to reoffer the sale promptly and in an essentially identical fashion. Satisfying those two criteria could create other problems.

The prompt reoffering of numerous defaulted sales would tend to flood the market with more timber than it would be able to absorb. That could force prices artificially low. Since most of the reofferings presumably would be in Region 6, site of the highest-priced existing contracts, there would be potential for regional market dislocation by products produced from such artifically low-priced timber. The Forest Service already has said it would reoffer timber from terminated sales in consonance with its normal sale program and in light of the market's ability to absorb the reofferings. That course would seem likely to produce more revenue for the government than would forced sales into an unwilling market.

Reoffering defaulted sales under their original conditions would require using former contract provisions which were abandoned earlier last year when the Forest Service increased the financial obligations of purchasers. Those changes were intended to reduce speculation in timber. Offering a number of contracts with the old terms could create an unwarranted two-tier sale arena.

Even if these contracts were promptly resold under the older contract terms, the Forest Service would incur the legal and time costs of trying to win a judgment in court for the contract value lost on resale. Once a judgment was won, the problem would remain of how to collect it. Companies defaulting on sales could well be bankrupt or otherwise out of business by the time any judgment was rendered.

Defaults would be a severe below for county governments, which share in timber revenue with the federal government. Counties may get no share of any default judgment which might be collected, and they would receive less from a forced default resale than they likely would get from an orderly termination resale.

In sum, with a harvest-or-default policy, the government could do itself more harm from both a revenue and policy standpoint than if it permitted an orderly termination and resale of a significant portion of the highest-priced sales.

D. Massive Defaults Would Consolidate the Industry in a Manner Harmful to the Government's Long-term Financial Interest and the Public Interest.

The timber industry presently includes numerous independent, privately held companies which compete strongly against each other. Although a few large and sometimes diversified companies in the industry are well known to the general public, the industry is not highly concentrated.

If companies are forced into massive defaults on existing federal timber contracts, the result for many will be bankruptcy or other forced exit from the industry. That would tend to consolidate the industry to no public benefit. Less competition in the long run would reduce government revenues from timber compared with what revenues would be from a more internally competitive industry.

The shutdowns and work curtailments of the recent depression have had a devastating effect on many communities. This would be magnified if the shutdowns were permanent. Unlike many industries which cluster in large metropolitan areas, the timber industry has many of its facilities in small communities which have little or no other economic base. A mill closing can mean the death of such communities, leaving residents jobless and with property losses that can wipe out their lifetime savings.

E. There is Nothing Unique About Parties to a Contract Modifying the Contract When Unforeseen Circumstances Arise.

Government's relation to timber companies in this situation is much like that of another private party in a routine business arrangement. It is not unusual for a contract to be changed when events arise which were not expected when the contract was signed. Government is more frequently the purchaser than the seller in contracts. Terms often are changed in long-term procurement contracts when unexpected situations arise. But the principle should be no different where government is the seller and it is to the parties' mutual advantage to work out an orderly change rather than stand by a chaotic status quo.

F. Timber Contract Revision Is Similar to Proposed Natural Gas Contract Revisions.

Consideration must also be given to the price impact on consumers if legislation such as S. 916 is passed versus maintaining the present status quo. While it is impossible to provide precise price impacts, it is fair to say that certain economic similarities exist regarding the dilemma facing certain natural gas consumers and users of lumber manufactured from timber covered under the provisions of S. 916. Economic conditions have changed radically regarding both of these commodities in the last several years rendering a substantial amount of volumes under contract of each uneconomic.

The Reagan Administration has submitted legislative recommendations to Congress to permit renegotiation or cancellation of natural gas contracts. Under the proposed Natural Gas Consumer Regulatory Reform Legislation purchasers would be free to respond to market signals and reject deliveries of high priced gas that was not marketable. Purchasers that exercised this right would also be relieved of their contractual obligation to pay for volumes not taken. This is designed to protect consumers from natural gas price increases.

The same logic applies to existing federal timber contracts. Changed economic conditions have made substantial volumes of timber under contract uneconomic to harvest and, therefore, not marketable. By allowing termination of some of these contracts, recognition is given to changed economic conditions. This would release for rebid and harvest billions of board feet of presently frozen potential forest products to provide additional supply to the reviving housing industry.

IV. S. 916 Does Not Benefit One Segment of the Industry at the Expense of Others.

A. Industry First Began Discussing Contract Terminations in Autumn 1981.

In late 1981, it became apparent that the timber industry was suffering more than its typical one-year down cycle. Some members of the industry from western Oregon began exploring whether allowing termination of federal timber contracts might be the best way to resolve what clearly was getting out of the ordinary. Reps. James Weaver and Les AuCoin of Oregon introduced separate contract termination bills, and hearings were held in Chairman Weaver's House Agriculture and Forests Subcommittee.

B. S. 916 Evolved Under the Auspices of Senators Hatfield and McClure.

Early in 1982, Sen. Mark Hatfield of Oregon suggested one means of helping Oregon mills beset by high raw materials costs and counties plagued by declining timber revenues (See Appendix D): roll back the contract price of timber on the Bureau of Land Management's O&C timber lands in Oregon. Counties apparently believed this would be the quickest route to increasing timber harvests so that county revenues would rebound.

The notion of a benefit only for companies operating on the O&C lands was opposed by operators in the inland area of the west, who expressed their views to Sen. James McClure of Idaho. Sen. Hatfield and Sen. McClure discussed the matter. They ultimately oversaw the formation of an industry committee from Oregon and Idaho which they asked to return with a proposal for contract modification agreeable to both sides.

This eight-member committee met a number of times. Participants recognized that any significant program would have to effect more than just BLM contracts in order to avoid benefitting only one segment of the industry. The BLM sells approximately one-tenth as much timber in its Oregon operation as the Forest Service sells nationally. While the Oregon operators favored a program permitting unrestricted termination of contracts, Idaho operators expressed concern that this would give a market advantage to operators in the higher-priced areas, where a termination would be worth more than in low-priced areas such as Idaho. Idaho operators also said their bigger problem during the industry downturn was having to pay more of the share of building roads to be included in the permanent National Forest Road System. The elimination of the "ineffective purchaser road credit" was both needed and justified in principle as a source for relief.

The committee completed work on a three-point program for legislation. The three elements would entitle each operator to:

(1) Terminate federal timber sale contracts covering approximately 40 per cent of the operator's volume under contract;

(2) Extend for five additional years without financial penalty the expiration date of any contract not terminated; and

(3) Receive full purchaser road credit without regard to the price of timber in the contract under which the road was built, with such credit to be transferable and applicable anywhere in the National Forest System.

Working out the details and drafting legislative language embodying this proposal then began. This proposal was a reasonable compromise among divergent views and industry situations that the greatest number could accept and endorse, as providing the highest degree of benefit under differing circumstances in the timber community.

C. Industry in the West Made Concessions to Concerns Voiced by Industry in the South, but Differences Still Exist.

Some operators in the South voiced concern that any large volume of terminated timber might reenter the market in addition to the regular Forest Service sales program. This, they feared, would lead to abnormally low timber prices in the West and result in market dislocation at the expense of the South. In light of statements from the Department of Agriculture that terminated volume would be reoffered as part of the regular sale program, the West did not believe the South's fears would be realized.

To meet the South's concerns, the West agreed that any legislation should include some additional specific limitation on timber sales in Forest Service Region 6 (Pacific Northwest) to insure against market dislocation. This cap on Region 6 timber sales in 1984 is a provision of S. 916. However, some elements of the Southern forest industry do not support S. 916 for a variety of reasons.

D. S. 916 Includes Compromises Developed with the Administering Agencies, Congressional Staff Members and the Senate Energy Committee.

During the course of drafting its proposals, industry worked closely with the staff of Senator Hatfield, which in turn involved the Forest Service, Bureau of Land Management, and legislative counsel of the Senate. Senator Hatfield introduced legislation, S. 2805, which was considered and reported by the Senate Energy Committee in 1982.

V. S. 916 Best Meets the Needs of the Federal Government, Local Communities and their Governments, Workers, and Businesses.

A. Sales May be Terminated.

Section 2 of S. 916 authorizes the Secretaries of Agriculture and the Interior to terminate contracts for the purchase of timber which were bid prior to January 1, 1982. Section 2 also mandates and sets the limitations on the termination program, and Section 7 requires prompt implementation. Provisions of the termination program include the following:

1. Timing.

The Secretaries would be directed to publish procedures implementing the program within 30 days after enactment of the Act.

2. Volume to be Terminated.

Purchasers would be entitled to terminate 40 per cent of their timber volume under contract with both Secretaries as of January 1, 1982 less any volumes cut, removed, or paid for prior to that date. Because it is highly unlikely that any combination of terminated sales would total exactly 40 per cent of volume under contract, purchasers could "round up" their terminated volume by terminating one additional sale so long as the total volume terminated including the additional sale did not exceed the 40 per cent limitation by more than 10 million board feet. The one additional sale would have to be more recently bid than any of the other sales terminated by the purchaser.

Small businesses holding only one or two sales might find that they could not terminate a sale under the 40 per cent limitation. Therefore, an alternate termination entitlement of either 15 million board feet or one contract is provided.

3. Qualifying Date of Sales to be Terminated.

To be eligible for termination, a sale must have been bid prior to January 1, 1982. Beginning in 1982, the agencies began to offer a number of short-term sales in an effort to bring more realistically priced timber onto the market. These more recent sales would not be eligible for termination, although, as noted above, sales bid prior to this date would be used in calculating a purchaser's volume of termination entitlement.

4. Condition of Sales to be Terminated.

Sales on which no harvesting has taken place could only be terminated in full. A purchaser could not turn in one part of a sale while retaining another part.

Sales on which partial harvesting had taken place could be terminated only after work was completed on identifiable units or other logical portions of the sale as determined by the Secretary. The Secretary could refuse to terminate the contract of a partially cut sale if he determined that remaining unharvested units were not representative of the entire contract area in terms of species and logging methods.

Partially cut sales must be eligible for termination or else the termination program will be too limited in its practical application. At the same time, the Secretary must be given authority to reject termination where he finds a purchaser has taken only the best timber from a sale area and left only the poorer quality material.

5. Costs.

A terminating purchaser would be required to pay a termination fee of $3 per thousand board feet of terminated volume up to $20,000 per each contract that is terminated. This payment would cover the cost of reoffering the sale and would be in lieu of any damages, penalties or other claims.

The $3 charge is based on cost determinations made by the Forest Service that it will cost $1 per thousand board feet to reoffer an untouched sale and $6 per thousand to reoffer a partially cut sale. A termination charge formula is considered much more administratively efficient than trying to calculate the actual reoffering costs of each sale.

6. Road Credits from Terminated Contracts.

Purchaser road credits remaining on a Forest Service sale after setoff against amounts owed by the purchaser to the Secretary of Agriculture could be transferred to other contracts held by the purchaser, retained on account with the Secretary by the purchaser, or transferred to another party with all rights. Subsection C below more fully discusses the industry's purchaser road credit proposal, which this provision implements as to terminated contracts.

A purchaser terminating a contract with the Department of the Interior who had completed roads under that contract would be credited, after setoff, for the value of the roads as set in the contract appraisal allowance. That credit could be transferred to other contracts with the Secretary of the Interior held by the purchaser, retained as a credit with the Secretary, or transferred to another party with all rights. This would reimburse the purchaser for value provided to the Secretary without consideration. Normally, a bidder for an Interior sale pays the cost of the road but takes that cost into account in making his bid. Thus, he is actually paid for the road through the value of the harvested timber.

7. Limitation on Resales of Terminated Timber.

Terminated Forest Service contracts would be resold only as part of the agency's normal sale program. This is intended to prevent flooding of the timber market with sales in excess of the normal sale program, and any possible regional dislocation that might result.

8. Eligibility for Bidding on Resales.

Terminating purchasers would be eligible to bid on the resale of their terminated contracts.

B. Sales Not Terminated Would be Extended by an Additional Five Years Without Financial Penalty.

Section 2 of the proposal authorizes the Secretaries to adjust the termination dates of timber sale contracts under the program mandated in Section 2(b)(1). The provisions of the extension program are as follows:

1. Timing.

Implementing provisions would be published by the Secretaries within 30 days of enactment of the Act in accordance with Section 7. Adjustment requests would be made prior to the termination date presently in effect for the contract. Adjustments would be for five years from the termination date in effect at time of enactment of the Act.

2. Contracts Eligible for Adjustment.

To be adjusted, contracts would have to have been bid prior to January 1, 1982. Contracts sold since January 1, 1982 would not be eligible for adjustment. To permit extensions of these contracts would defeat the purpose of the short-term sales offered since January 1, 1982. There is no timber volume limit on the aggregate of contracts to be adjusted. However, contracts involving substantial amounts of timber subject to rapid deterioration could not be adjusted except with approval of the Secretary. Permitting unqualified adjustment of such deteriorating timber would waste the resource. Permitting termination of such contracts, however, enables the agency to resell quickly to a willing harvester.

3. Conditions of Adjustment.

Purchasers would have to remove 25 per cent of the estimated timber volume by the end of the third operating season of any contract adjusted for four or more years or pay 25 per cent of the contract price by the start of the fourth operating season of the adjustment period. This provision is designed to insure that some work will progress during the course of the adjustment, and that operators will not leave sales untouched until the end, then seek further adjustments or terminations. This provision reflects a particular concern of industry in the South.

C. The Forest Service Should More Fully Pay the Costs of Roads Built Under Timber Contracts and Designed for Inclusion in the Permanent National Forest Road System.

On many timber sales, roads must be constructed in order to provide access. The Forest Service requires roads built to be adequate to log the balance of the timber adjacent and tributary to the road but not included in the sale, and for future management of the land, as well as such non-timber uses as hunting, fishing, and other outdoor recreation activities. These are designated for inclusion in the permanent National Forest Roads System. Such permanent roads are built to higher standards than would be necessary for the specific timber sale. Therefore, when the timber purchaser builds a permanent road for the Forest Service, he is given a credit for those construction costs. The purchaser's position is theoretically similar to that of any contractor building a federal highway--he provides a benefit to the government and gets paid for it. Rather than receiving a cash payment, however, the timber purchaser receives a credit which he can apply against timber he harvests.

A problem with the purchaser road credit is that there are many instances where the credit can never be taken, or can be taken only after significant time delay. The result is that the purchaser is in some cases donating part of the road to the government, and in other cases is providing the equivalent of an interest subsidy to the government.

The so-called "ineffective" purchaser road credit arises when the value of timber on a sale in excess of the statutory base rate is less than the estimated cost of the road construction required under that sale contract. The base rate is a portion of the timber value which must be paid in cash, not credits. The remaining value can be paid in purchaser road credits. But credits in excess of the remaining value presently are valueless.

Sales whose stumpage price escalates or de-escalates based on the market originally may have had adequate stumpage value to absorb road credits. But in a market decline such as now, the stumpage value may de-escalate below the amount needed to absorb road cost, and may require cash repayment in lieu of road credits already used which now have been transformed from effective to ineffective.

"Effective" purchaser road credits can be used to pay for timber not only from the sale where the road was built, but for any other sale in the same National Forest. If a purchaser has more than one sale operating in a suitable sequence in the same National Forest, he ideally can utilize his credits soon after they are earned. But in other situations, the purchaser may be unable to use his credits for perhaps one or two years, thus providing the equivalent of an interest-free loan to the government.

Some purchasers, faced with the knowledge that some of their road credits on a particular sale will be ineffective, bid the price of the sale up to the level where all the credit will be effective. This costs the purchaser nothing, and may provide a cash flow advantage if he has another sale in the same forest on which to use the credit. These cash strategies, however, are somewhat artificial.

Industry proposes that the timber purchaser subsidy to government road building be ended by making all purchaser road credits effective, permitting them to be utilized anywhere in the National Forest System, and making them freely transferable among purchasers. This creates a much greater degree of equity between purchasers and the government, and between different purchasers.

Most sales with ineffective road credits--called deficit sales--typically are east of the summit of the Cascade Range and in the Rocky Mountains, areas where timber prices are lower than in such areas as western Oregon and western Washington. Increasing numbers of sales in California and the west side of Region 6 also are deficit in the present market. Providing equity to purchasers from the subsidization of government roads would importantly help them weather the present timber depression as well as end an unwarranted private subsidy to the United States. Operators in the inland area will be less helped by contract termination than operators in high-priced areas, so this element of the industry proposal would significantly balance the benefits of legislation.

S. 916 would make effective the ineffective purchaser road credits earned under contracts still in effect, and would make all future road credits effective.

Some opponents of the purchaser road credit proposal argue that it would make marginal timber sales in the inland area more attractive to operators and thus would increase the development of present roadless areas. Industry believes, however, that there are likely to be fewer roads built in roadless areas of the inland region because the government will have to, in one way or another, more fully pay the cost of these roads.

D. Some Jobs Would be Restored by S. 916 and Many Other Jobs Would Be Poised for Quick Restoration When Markets Improve.

It is important to remember that any form of contract modification, whether it be termination, extension or price rollback, cannot in and of itself create additional markets for lumber and plywood. What modification can do is enable operators to retain their share of the present depressed markets as opposed to losing further market share or leaving the market entirely due to business failure. Moreover, contract modification will enable companies to promptly increase their production as markets revive.

S. 916 provides for building of roads at the discretion of the Secretaries. These roads would not be built if contracts were defaulted until the timber was reoffered and resold. Thus, the industry program will more quickly create and retain roadbuilding employment than would taking no action and inducing massive defaults.

VI. Other Proposals Have Shortcomings as Opposed to S. 916.

A. Economic Hardship.

A proposal authorizing the Secretaries to act only "upon a showing of economic hardship by the private contracting party" is not appropriate. It is not specified whether this is to be economic hardship relating to the specific timber contract at issue, or whether it is to be economic hardship relating to the purchasing operator as a whole. If the hardship relates only to the specific contract, industry's concern is less, since there would be no seeking of termination or adjustment of the contract if it were economically viable to operate. If the hardship is to relate to the entire company, however, industry would be gravely concerned about the kinds of tests to be set and the inequities among purchasers which would likely result.

In the course of developing its proposal, industry considered whether hardship qualifying tests should be set. It concluded there was no equitable measure that could be practically used. Company size was not proper, because some large companies as well as small are in poor condition. Volume of timber under contract is not relevant. Profit or loss for the most recent period is not an accurate indicator because it is unrelated to the immediate and future problems of the timber volume under contract and its price. Companies who have no timber under contract are affected by the industry depression because they were frozen out by high bidding in previous years. These companies could get inadequate access to resale of terminated volumes if companies in their vicinity were judged to have no economic hardship and thus could not terminate sales. A company's relative hardship position also could change depending on whether its nearby competitors qualified and were able to terminate sales, thus sharply reducing their price of raw material while the supposedly healthier company was left with only high-priced raw material. Given the relatively short time left before this program should be implemented in order to be effective, the time required to develop any economic hardship test would be a further problem.

B. Price "Rollback".

Industry has strong doubts about rolling back the prices of existing contracts. The goals of price rollback and termination are the same: to make more timber available to the present market at prices that reflect the present market. Rollback would achieve this by lowering the prices for existing contract holders. Termination would achieve this by reoffering terminated sales to any purchaser under bidding that would reflect the current market. The industry has been criticized for creating its own problem due to high bidding that took place in the late 1970's and start of the 1980's. Rolling back prices for the winning high bidders of that period would grant them a benefit while providing no opportunity to reenter the market for purchasers who stayed out of that bidding. Termination would start the game over again for everyone equally under the new ground rules of the present market, favoring neither past bid winners nor companies who did not bid at those price levels. Industry believes, therefore, that terminations are a more equitable approach to the goal of putting timber back on the market at today's market prices.

C. Contract Adjustments By Themselves Create Problems And Must Be Must Be Extended For An Extraodinarily Long Time To Be Helpful.

Timber sale contract adjustments alone serve only to postpone the immediate crisis deadlines caused by the timber depression, but do not offer a solution reasonably likely to enable operators to emerge from the depression in minimally acceptable business condition in the next few years.

To be adequate in length to solve the problem contracts would have to be extended over a period of ten years or more, as opposed to the five years under S. 916 when coupled with a termination program.

In addition to the excess time required there will be delays in planned timber sale programs because of blocked access and overlapping sale areas. Salvage timber, which is economically inoperable, will remain and continue to deteriorate during extension periods which is not in the best interests of the government.

Forcing operators to retain all present contracts, even with extensions, hinders their ability to purchase present timber supplies at prices reflecting the current market. It also reduces the selection of timber available to the agencies to offer in expectation of providing realistically priced raw material.

VII. CONCLUSION: For the Reasons Stated Above, Congress Should Enact S. 916.

April, 1983

Forest Industry Position

Federal Timber Contract Legislation

A Bill for the Survival of Federal Timber-Dependent Communities

Economic recovery will be slow and thwarted for many communities that depend for their livelihood on the forest products industry. Economic recovery will be hampered because hundreds of mills in western milltowns that hold contracts to purchase high-priced federal timber can't perform on those contracts.

When government fiscal and monetary policy pulled the rug from under home building, prices for wood products collapsed. But government timber contract prices have not changed and the time period for purchasers to complete performance on federal timber sale contracts is imminent.

Without help, many mills will have only one choice—default and ultimate bankruptcy. And if the mills go under, the economic base for entire regions, for hundreds of western communities and for jobs goes with them.

The federal government shares this problem—both its cause and consequence. Its policies for more than a decade created an artificial scarcity of federal timber. In the housing boom years of the 1970s, federal timber policies encouraged enormous inflation in the prices bid at auction for the insufficient federal timber supply that was offered for sale.

With competition keen, mills dependent on federal timber were obliged to bid high prices or be without a raw material supply to keep their mills and employees working.

Now, with home building reviving, the market for wood building products is also coming back slowly. But neither the present market nor anticipated future wood markets will make these federal timber contracts economically operable. Timber purchasers cannot perform on contracts when raw material prices in some cases are twice as high as price levels for finished products. The result is that contracts for billions of board feet of timber purchased in the late 1970s when bid prices were high are inoperable and the timber goes unharvested. Contract revision is needed desperately.

Congress is considering legislation, S. 916, that can save western regional economies and those of many federal timber-dependent communities—and the mills that are the economic base of those communities. But time is running out. Many contracts require performance in 1983. Federal policies fueled the crisis; only federal action can provide the needed changes and survival for communities hard hit by unemployment and depressed economies.

Origins of the Crisis

The 190-million-acre National Forest system provides many benefits for the nation. One of its prime benefits—and one of the reasons for its creation—is to provide a continuous supply of timber for the nation's needs. The areas of the National Forest designated for commercial timber production—about 90 million acres—contain more than half of the softwood sawtimber standing in all U.S. forests, both public and private.

Most of the federal timber lands are in the West, and scores of communities owe their existence to the sawmills that depend on National Forest timber for raw material. In the West, the federal government is the largest seller of timber.

With the 1970s environmental movement, federal policy response was to hold down the sale of timber, despite high supply needs for wood building products to meet the 1970s housing demand. During that decade housing starts averaged 1.8 million units a year and new starts exceeded two million units in five of those years. Housing starts in 1980 through 1982 were little more than one million units annually.

The downhold on federal timber sales created timber supply scarcity, and bid prices zoomed for available timber offerings. Douglas fir timber bid prices rose from $41.90 a thousand board feet on the stump in 1970 to $432.20 a thousand board feet in 1980—a 931 percent increase—an increase that dwarfs inflation.

When the Federal Reserve Board tightened the growth of money supply in late 1979 to control inflation, interest rates took off, home building stopped cold, the major market for wood building products collapsed and remained dormant for three years, and wood product price levels plummeted. Federal timber purchasers were squeezed between high raw material costs, low finished product prices and prospects of only a moderate market rebound.

Federal Timber Sale Contracts

The Forest Service sells timber from the National Forests in parcels on a competitive bid basis. When a high bidder on a timber sale signs a contract, the agreement states that the timber will be harvested within a stated time period. Contract length varies among regions of the country depending upon the volume of timber sold, the road building required, and environmental requirements.

The Forest Service recognized that many timber sales would go unharvested unless it took action to stem widespread breach of contractual obligations. In early 1980, it granted a one-year extension of contract terms. But as market conditions continued to deteriorate through 1980 into 1981, the Forest Service, in October, 1981, granted another two-year extension of contract terms.

But in May, 1982, with market conditions still hopeless and mill closures and production curtailments at record highs, further action was needed. Many timber purchasers could not pay the contract extension deposits required by Forest Service extension policy. To prevent further hardships, the Forest Service waived extension deposits, but required interest payments on the unpaid balance of the contract value owed the federal government.

Interest payments are now coming due—and many mills cannot make these payments. They face a three-way bind: they can't pay the interest charges, they can't perform on the contracts, and their only recourse is default and ultimate bankruptcy—bankruptcy forced by default penalties.

Contract Revision Legislation

With these crisis conditions, Senators Mark Hatfield of Oregon, James McClure of Idaho, Henry Jackson of Washington, John Melcher of Montana, Wendell Ford of Kentucky, Spark Matsunaga of Hawaii and 15 other Senators cosponsored S. 916 to provide an orderly method of terminating and extending existing contracts for the sale of federal timber. The measure was discussed with forest industry groups to find a means to prevent further economic chaos in states dependent on federal timber.

Purpose of S. 916 is to allow federal timber-dependent communities and the forest industry a means to return to more stable economic conditions, as well as state and local governments which depend on the forest industry for taxes and jobs. The forest industry in the West has experienced the deepest and longest depression since the 1930s.

Without help, the human suffering and the social costs to federal and state governments will be staggering—in reduced tax revenues, increased unemployment payments, and a host of hardships and costs associated with defaults.

S. 916 provides the means for timber purchasers to terminate a portion of contracts, extend others, and for the inoperable volume of federal timber to be reoffered for sale at present bid levels. This timber is likely to be harvested earlier, bringing returns to local economies and to the federal government—returns they may not receive without the remedy provided in S. 916.

The principle behind S. 916 is common in the business world when parties to a contract agree to adjust terms during a difficult period to preserve a mutually beneficial buyer-seller relationship. It is also the principle common today under which labor unions agree to reopen contracts in order to aid the survival of their employers.

April, 1983

Forest Industry Position

S. 916

Federal Timber Contract Revision Legislation

The specter of default is very real for hundreds of western federal timber purchasers, with equally disastrous impacts on regional economies and those of local communities and states, unless Congress acts to relieve performance terms on economically inoperable federal timber sale contracts. The choice, really, is between contract revision and the ruinous status quo—which means wholesale defaults and bankruptcies.

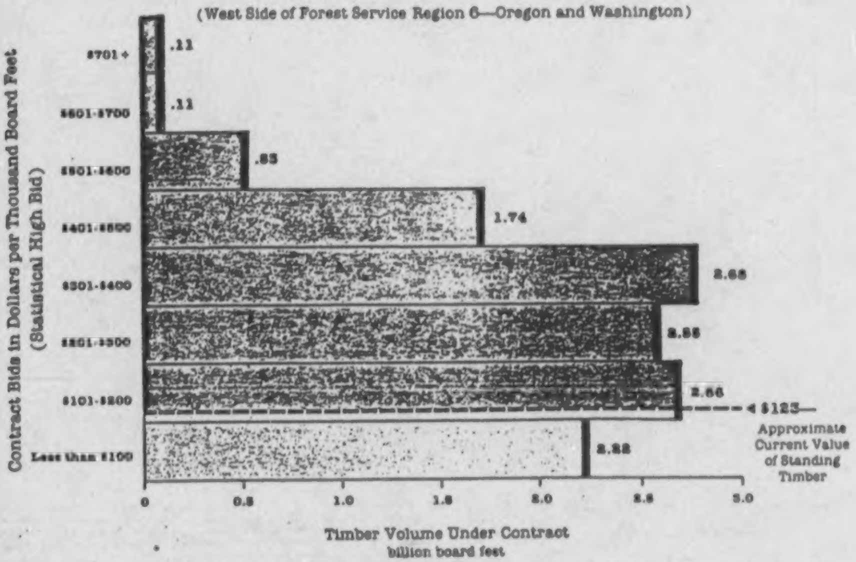
With current and anticipated market conditions, much of the federal timber under contract is inoperable. The question is: how to equitably minimize the damages and costs to both buyer and seller in a crisis situation?

S. 916, introduced by Senators Mark Hatfield of Oregon, James McClure of Idaho, Henry Jackson of Washington and 18 other Senators, provides an equitable remedy to help solve contractual obligations on which performance is impossible. Left unsolved, it means further chaos and thwarted economic recovery are predictable—for workers, communities, local and state governments, the western timber industry and the federal government.

To assure that the economically inoperable timber is changed from a public liability to a public asset—for both local and national economies—the forest products industry supports the primary objectives of S. 916: (1) termination of up to 40 percent of a purchaser's timber under contract, (2) five additional years to operate other contracts at the bid price, (3) improvements in the way the federal government compensates purchasers for required road construction, and (4) a limit on the volume of federal timber to be sold in Washington and Oregon.

Volume of Federal Timber Under Contract

(West Side of Forest Service Region 6—Oregon and Washington)



The volume of federal timber under contract as of Dec. 31, 1982, is causing a particular problem on the West side of Forest Service Region 6 (Oregon and Washington). Stumpage prices for approximately 9.7 billion board feet of timber under contract are at levels that greatly exceed the current market value of standing timber. This timber cannot be harvested economically in today's market or anticipated future markets..

What S. 916 Does

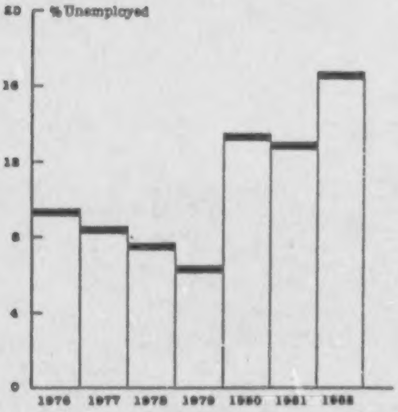
Allows Federal Timber Purchasers:

- To terminate timber sale contracts representing (1) up to 40 percent of the timber volume under contract as of Jan. 1, 1982; (2) a volume of up to 15 million board feet on contracts bid before Jan. 1, 1982, or (3) one contract bid prior to Jan. 1, 1982, in its entirety.
- To terminate, in addition to the 40 percent, one contract up to 10 million board feet bid prior to Jan. 1, 1982, but after all other contracts being terminated.
- To extend the expiration dates of the contracts not terminated for up to five years from the date the Act is signed without penalty or payment as long as: (1) 25 percent of the timber is removed by the end of the third operating season of the adjusted period, or (2) the purchaser pays 25 percent of the contract price by the start of the fourth operating season of the adjusted period.
- To bid on the resale of timber included in any terminated contract.
- To transfer purchaser credits earned in constructing National Forest roads after Oct. 1, 1982, either from one timber sale to another sale or to the same or other timber purchasers, but such transfers must take place either west of, or east of, the 100th meridian.
- To make "ineffective" purchaser credit "effective"—by allowing timber purchasers to receive full credit for Forest Service road construction cost estimates even if road construction costs are equal to or exceed the value of the timber.

S. 916 Also Requires:

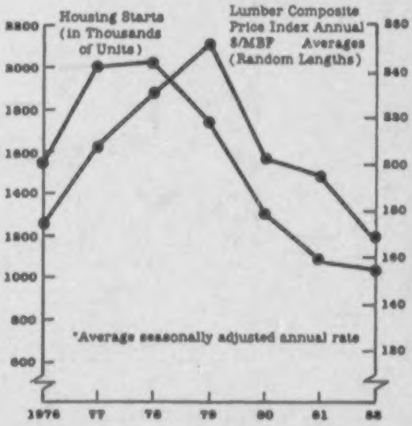
- Timber purchasers to pay $3 per thousand board feet for costs related to the termination and reoffering of the timber, to a maximum of $20,000.
- Timber from terminated contracts to be offered for resale in an orderly manner as part of normal timber sales programs.
- National Forest timber sale offerings in Region 6 (Pacific Northwest) not to exceed 4.1 billion board feet in fiscal year 1984.
- Authority to terminate timber sale contracts or adjust contract terms to expire one year after the date of the Act.
- A special timber salvage program to be established for National Forest lands.
- There be no change in the existing law and procedure for designating uses of land on the National Forests, or in the manner and criteria for recommending and creating Wilderness areas. The bill does not create any new environmental issues.

Annual Average Unemployment Rate
in Lumber and Wood Products Industry
1976-1982



The unemployment rate in the lumber and wood products industry was well below ten percent between 1976 and 1979, began to rise in 1980, and reached 17.8 percent in 1982

Housing Starts and Softwood
Lumber Prices 1976-1982*



*Average seasonally adjusted annual rate

Housing starts in 1982 were 39 percent below the 1979 level. Softwood lumber prices, which closely follow the level of housing starts, averaged 33 percent less in 1982 than the average price in 1979. The average price of softwood lumber increased moderately in the first quarter of 1983.

Explanation of S. 916 Provisions

Termination and Extension: S. 916 would allow timber purchasers to terminate 40 percent of their existing contract volume and extend the non-terminated contracts for up to five years. By turning back some of their high priced timber and bidding in the current market, purchasers can blend timber to achieve an operable raw material cost. Changes in purchaser credit provisions for purchaser-constructed National Forest roads would ease major cash-flow problems.

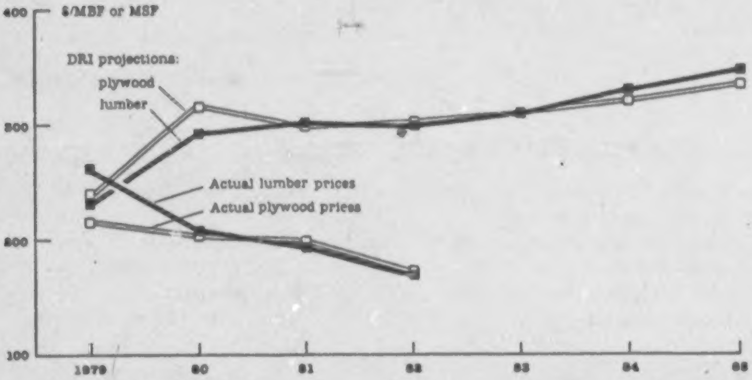
Purchaser Credit: National Forest roads built by timber purchasers result in a permanent asset to the federal government, which is used for recreation, wildlife management, fire control and other purposes long after the timber is harvested. Credits to purchasers building these roads are based on Forest Service estimated costs. The government receives the benefit of the purchaser's capital until the credit can be used. In a down market for timber and finished products, the present system of pricing timber can result in the road credit, or a portion of the credit, becoming unusable (or ineffective) since road costs can exceed the value of the timber.

The combination of "ineffective" credits on the same National Forest creates severe cash-flow problems for many timber purchasers. The purchaser credit provision of S. 916 would ease this problem. It would in no way result in more road building in National Forests or greater volumes of timber offered for sale. Both of these activities are regulated by the planning process established under the National Forest Management Act of 1976.

Deficit Sales: Deficit sales are those where the cost of road building or other requirements for a sale may be greater than the value of the timber sold. These sales are often questioned by critics of Forest Service policy on the grounds that the government loses money. Yet, there are good reasons for these sales; roads are important for recreation and other purposes. Many western communities depend totally on National Forest timber for economic survival.

When the Forest Service first elected to sell timber and mills were built, the federal government usually made a commitment to provide raw material to the mills on a continuing basis. Because of the government's pricing system, the current depressed market for wood products results in more deficit sales. As the market improves, the number of deficit sales will decline.

DRI 1978 Projection of Douglas Fir Lumber and Plywood Prices 1979 Through 1985, and Actual Prices Through 1982



Data Resources, Inc.'s 1978 forecast of Douglas Fir lumber and plywood prices expected lumber prices to rise dramatically between 1979-80 and to continue rising, though at a slower rate, throughout the decade. Plywood prices also were forecast to rise dramatically between 1979-80, to fall slightly between 1980-81, and then to continue to rise throughout the decade.

Federal timber contracts purchased in 1978 and 1979 were bid with the expectation that price levels for finished lumber and plywood would continue to rise due to high demand and inflation rates. The actual price trend was the reverse of the forecast. Prices reached a high in mid-1979, trended downward through 1982, and increased slightly in early 1983.

Economic Realities

A 1982 Forest Service study suggested that contract termination would be more costly for the federal government than if no action were taken, or if contracts were extended or contract terms adjusted. But the study looked only at the economic impact on timber sale revenues to the federal government—for administration, foregone receipts, delay in receipts flowing to the federal Treasury, and revenue lost from contract defaults.

The study did not look at the human hardship, social costs or the market disruption that would result without this legislation—and the total cost to the federal government. Social costs would be enormous—further dislocation of an already battered economy, reduced federal and state tax revenues, bankruptcies, and instability of regional, state and local economies.

National Interest: S. 916 is in the national interest since it would maintain regional economies and spur economic recovery for hundreds of communities. S. 916 would be far less costly overall to the government than no action—which means wholesale contract defaults. The options of contract extension or term adjustment, while of some help, do not go far enough in preserving market patterns or relieving carrying charges on timber sale contracts that may never be economically operable.

Massive bankruptcies could lead to restructuring of what is now a very competitive industry. Many small firms would go out of business, thus reducing healthy competition. Distortion of present market patterns would encourage more imports. Bankruptcies would burden lending institutions severely, especially in federal timber-dependent areas.

Benefits of S. 916

Among the beneficiaries of S. 916 is the federal government, which would receive receipts from timber contracts terminated and resold at current bid prices. The status quo would provide scant receipts because of bankruptcies and prolonged litigation.

Local governments would benefit by receiving their share of federal timber receipts from reoffered sales, while they would receive no portion of default penalties, even if collected by the federal government.

Local and regional economies benefit when a competitive industry is able to continue paying taxes and to provide employment. Jobs in the forest industry are down 19 percent from 1979 levels.

Industry benefits by avoiding bankruptcies and preserving productive capacity to meet the nation's housing needs when the market rebounds.

And local communities benefit by retaining their major source of economic livelihood—forest products manufacturing operations.

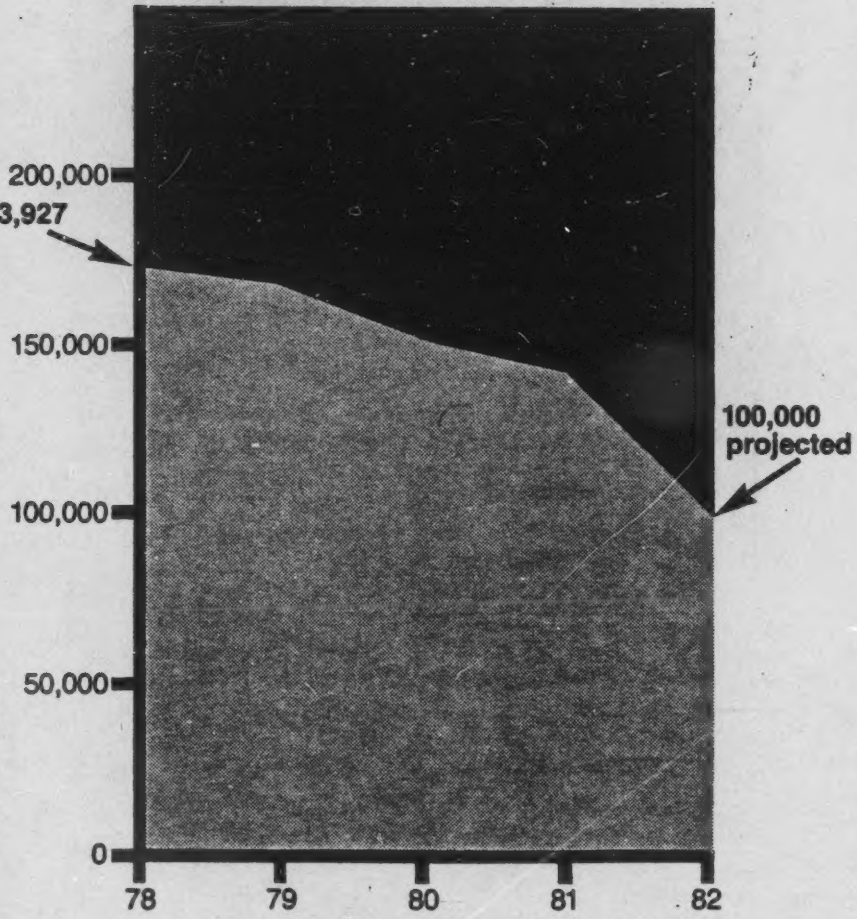
Organizations Supporting S. 916

National Association of Home Builders
National Forest Products Association
National Lumber and Building Material Dealers Association
Industrial Forestry Association
Western Resource Alliance
Northwest Independent Forest Manufacturers
Northwest Pine Association
North West Timber Association
Western Timber Association
Western Forest Industries Association

NATIONAL FOREST PRODUCTS ASSOCIATION
1619 Massachusetts Avenue N.W.
Washington, D.C. 20036

Appendix B

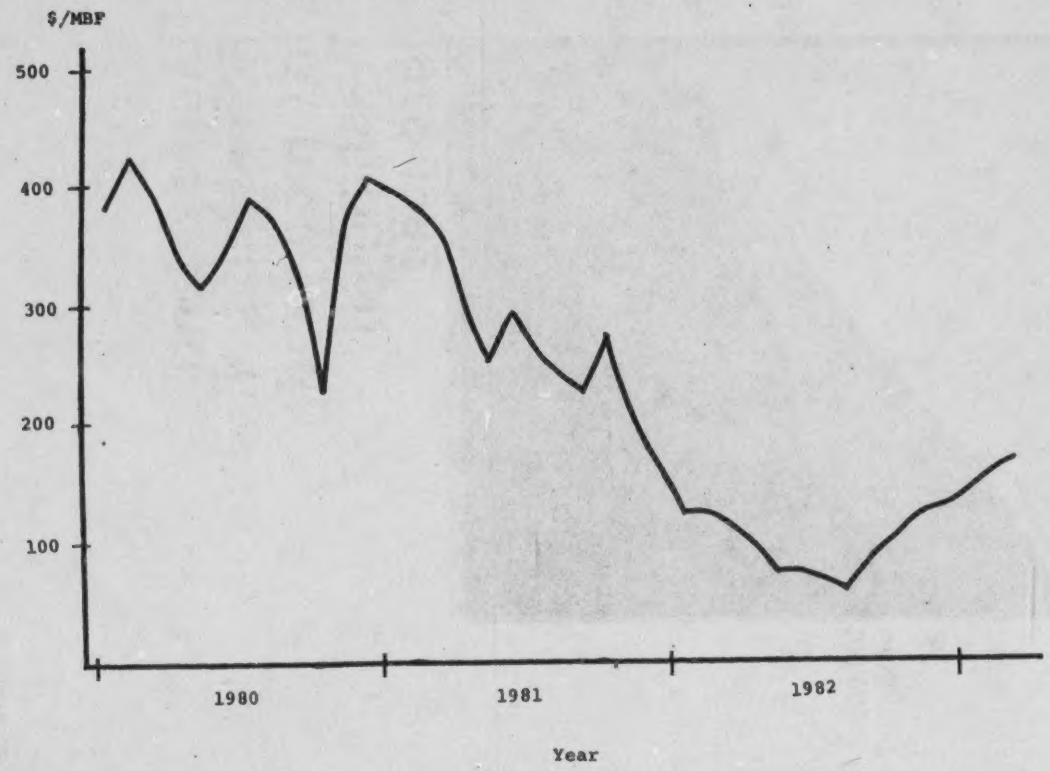
Employment: Forest Industries In Oregon and Washington 1978-1982



Appendix C

STUMPAGE BID PRICE

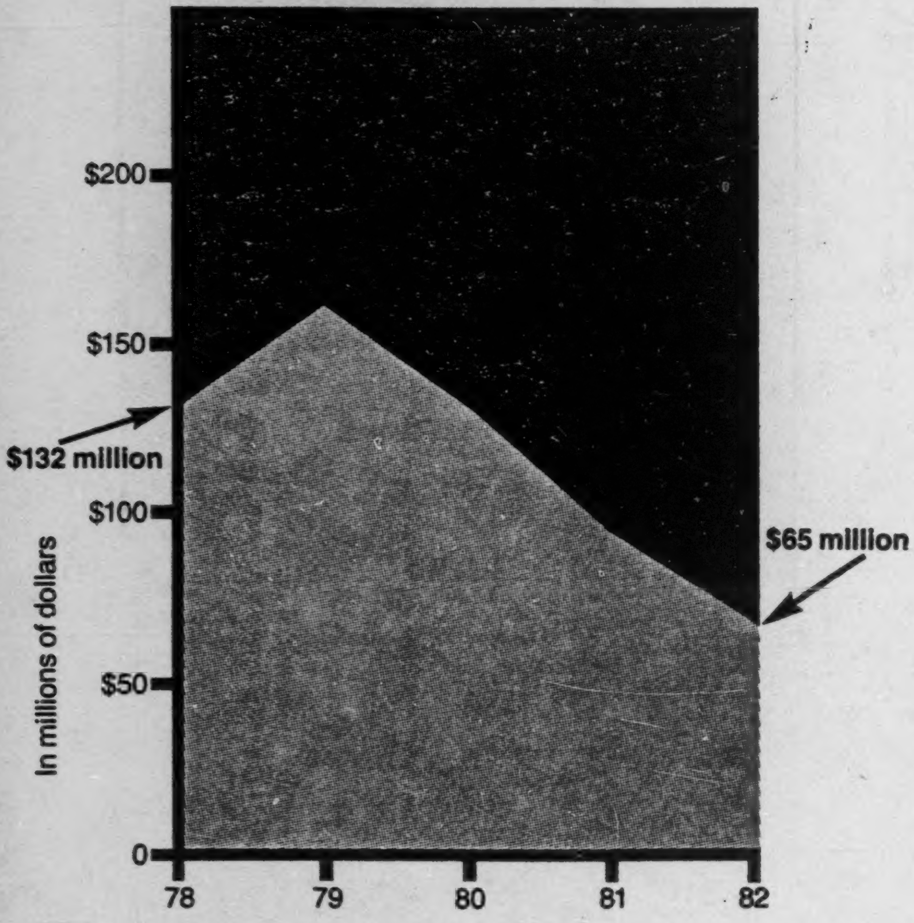
Forest Service -- West Side of Region 6



Source: Timber Data Co.

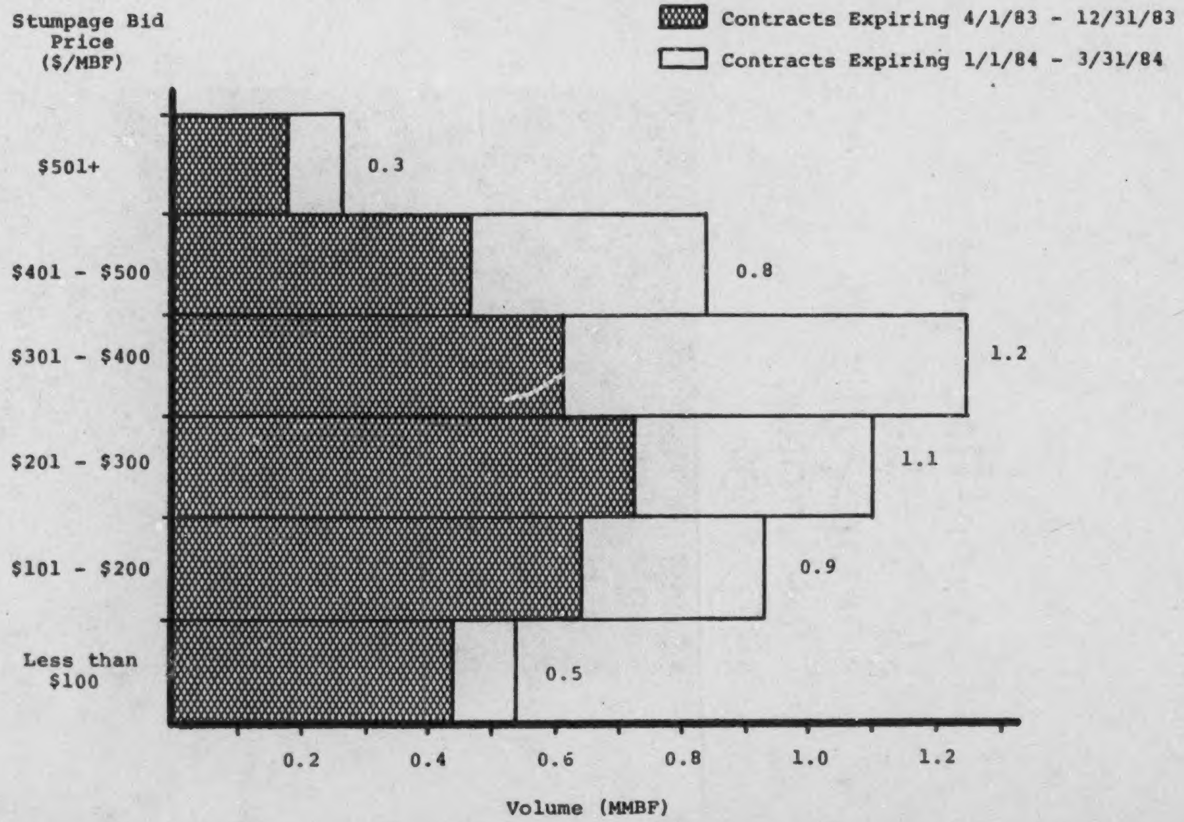
Appendix D

County Receipts* USFS Sales For Oregon and Washington 1978-1982

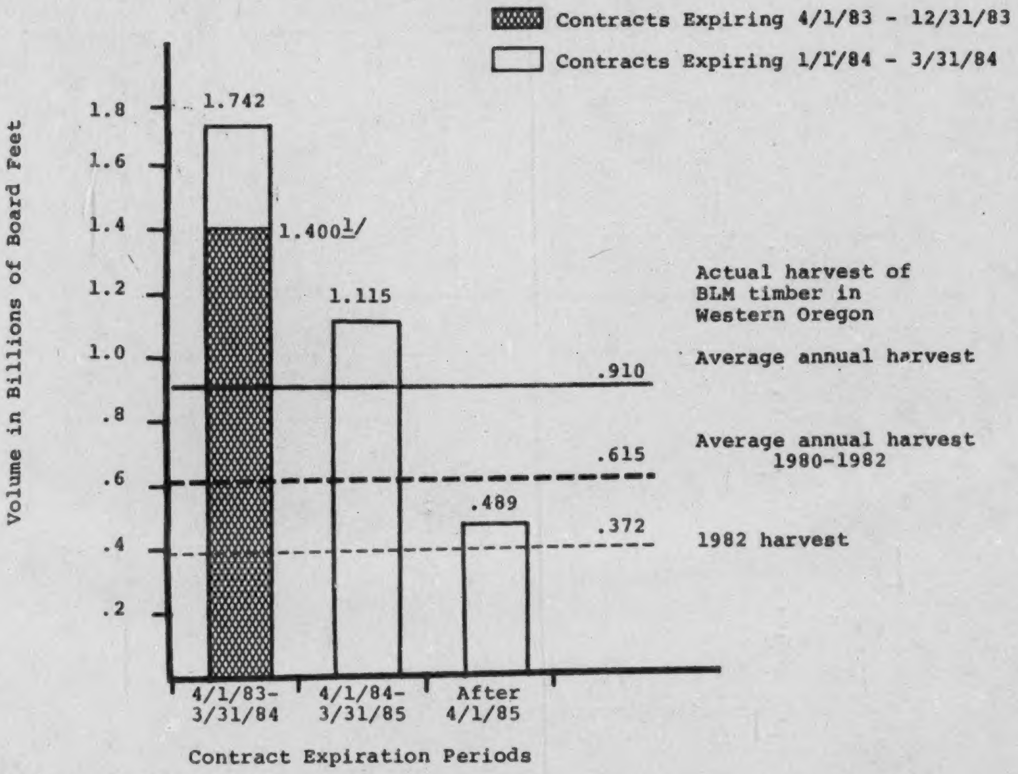


*25% of gross receipts from sale of timber and other resources

FOREST SERVICE
Estimated Volume and Price of Timber Under Contract
Expiring in 1983 Logging Year
(Western Oregon & Washington as of 12/31/82)



BUREAU OF LAND MANAGEMENT
Estimated Volume of Timber Under Contract
(Western Oregon as of 12/31/82)

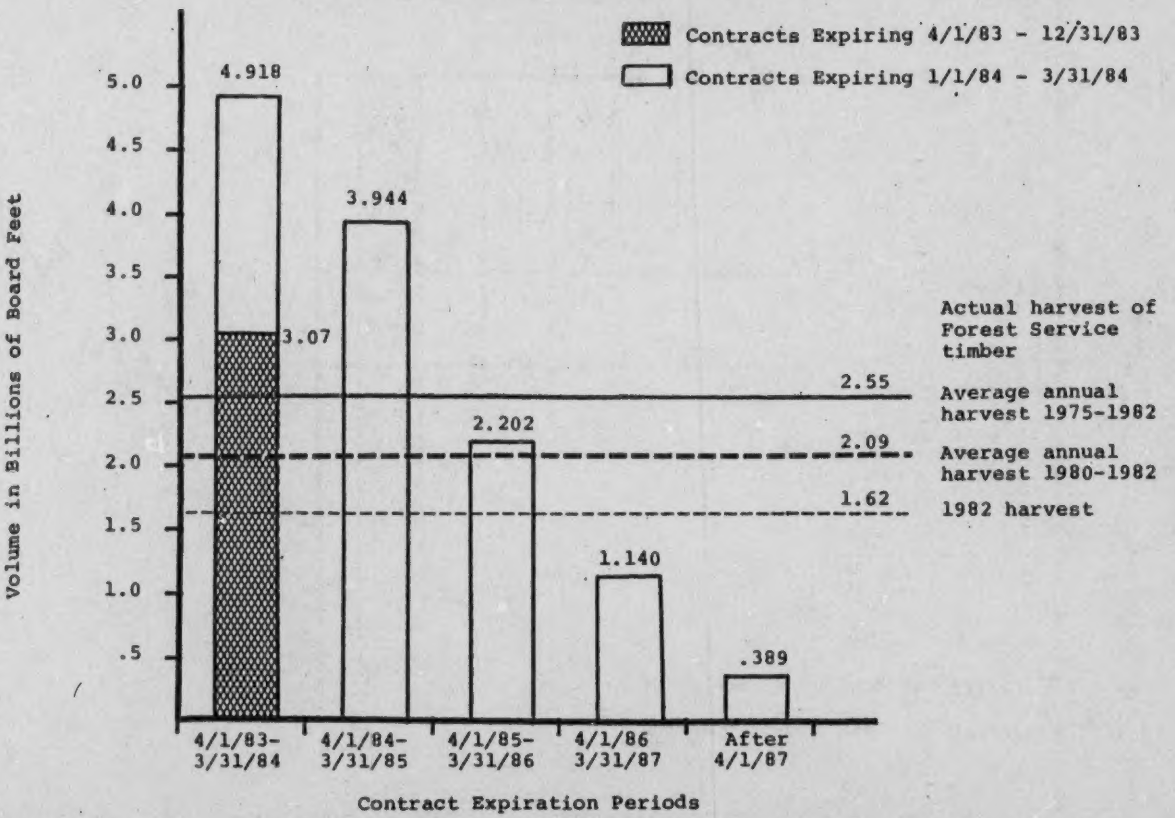


Source: National Forest Products Assn. from data supplied by Timber Data Company.

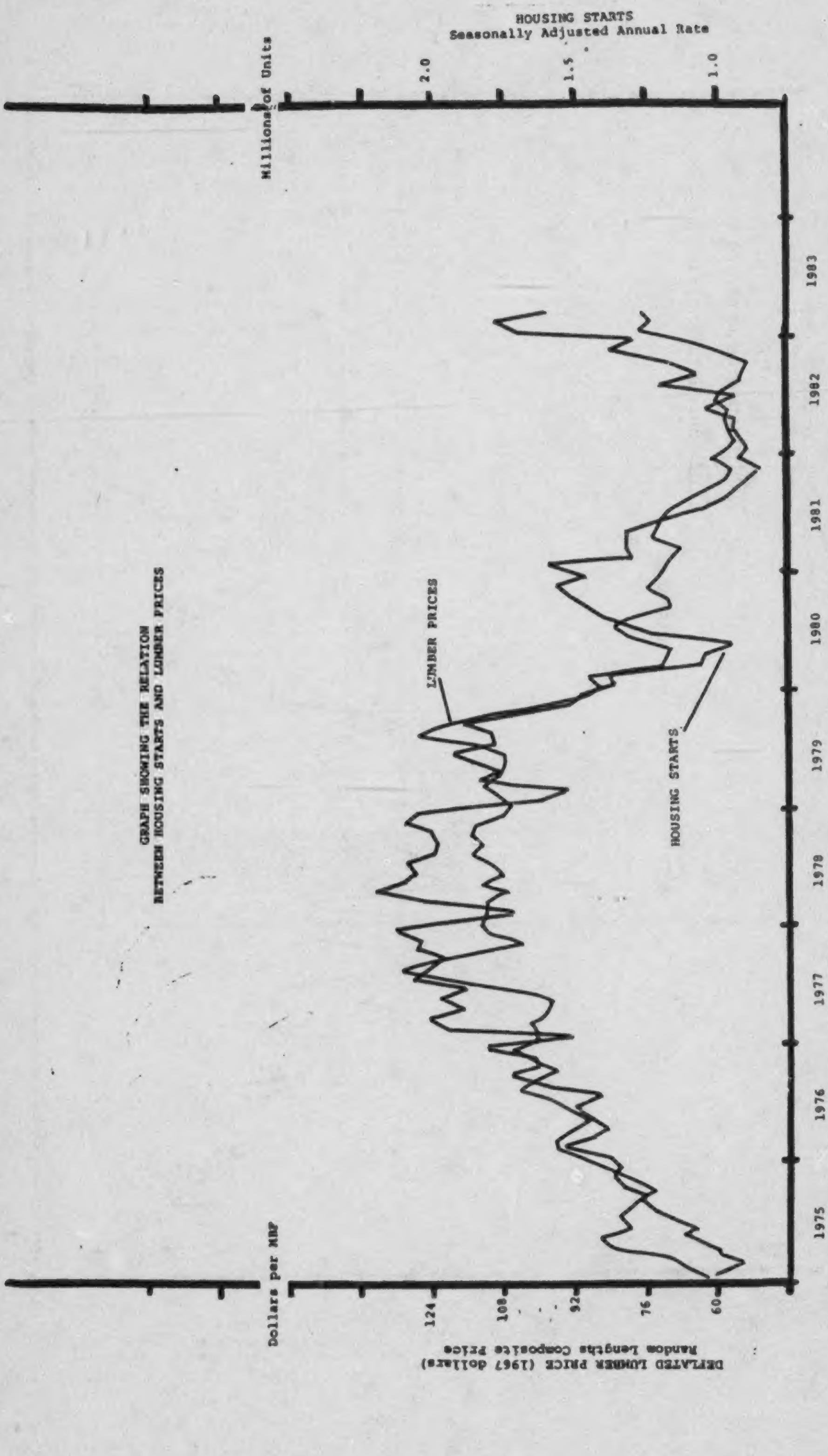
1/ Estimated by Western Resource Alliance

4/20/83

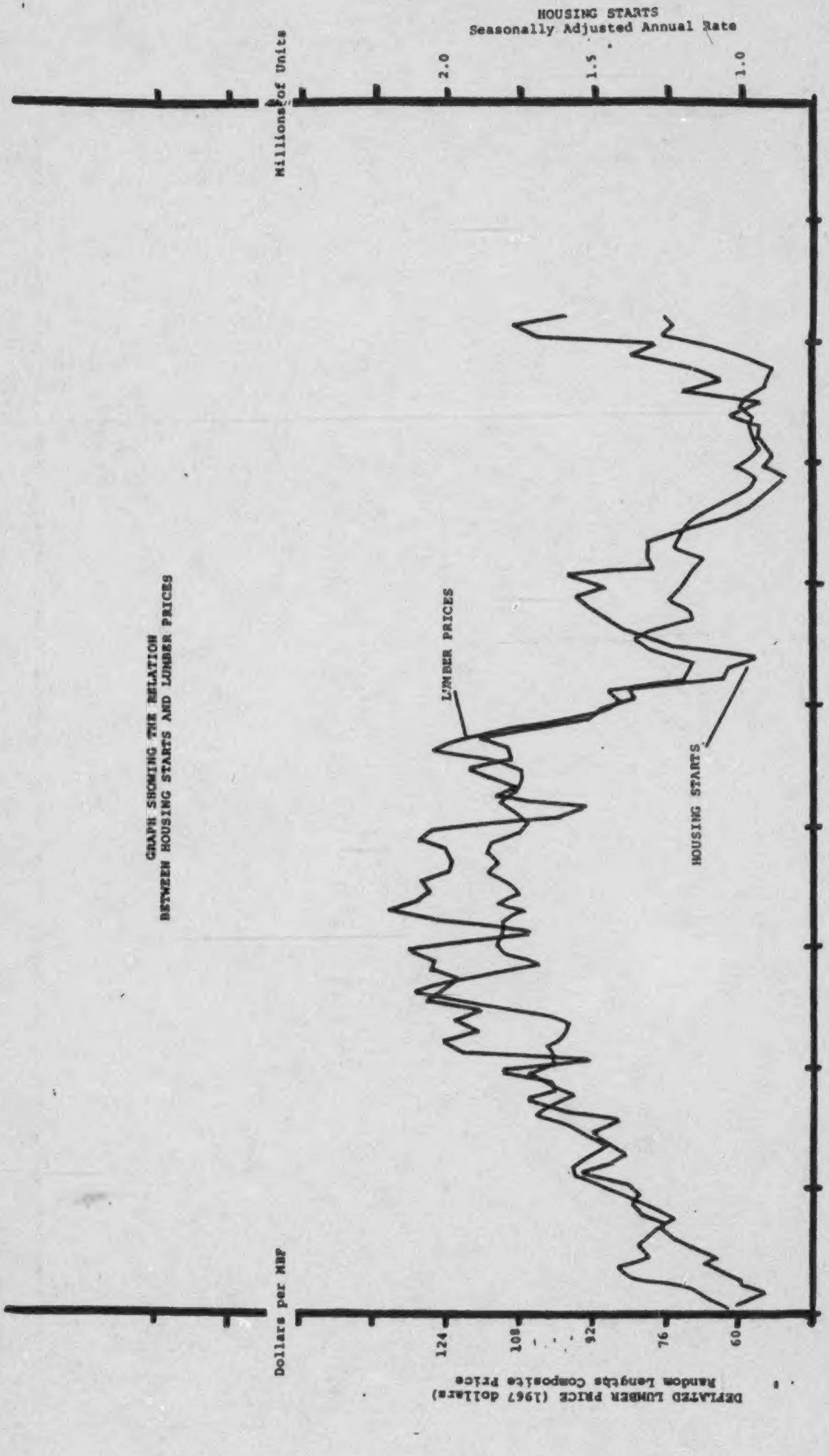
FOREST SERVICE
Estimated Volume of Timber Under Contract
(Western Oregon & Washington as of 12/31/82)



Source: National Forest Products Assn. from data supplied by Timber Data Company.



GRAPH SHOWING THE RELATION BETWEEN HOUSING STARTS AND LUMBER PRICES



GRAPH SHOWING THE RELATION
BETWEEN HOUSING STARTS AND LUMBER PRICES

Mr. Chairman and Members of the Committee:

Mr. George Craig and I are pleased to present to you some further information concerning the current situation involving federal timber under contract as it relates to the provisions of S. 916.

I am Vice President for Resources for the National Forest Products Association which represents about 2,500 forest industry companies throughout the nation. Mr. Craig, currently a consultant, was for many years the executive for Western Timber Association and its predecessor organization for many years. He is the expert of federal timber appraisal, sale and contract matters. We are grateful that he was available to participate in this hearing.

We would like to review some of the conditions that led to the current situation and to explain the provisions of S. 916 as a solution to the current situation. Mr. Craig has also prepared comments on other inequitable aspects of the federal timber contract which support the need to terminate a portion of the existing timber sale contracts.

Attached to this statement is a copy of a new chart displaying the volume of Bureau of Land Management timber under contract in Western Oregon. This is an update of a similar chart submitted for the record on April 22 by Mr. John Davis as a background statement for the forest industry supporters of S. 916. The new chart presents data as of April 30, 1983 instead of the December 31, 1982 date of the earlier chart.

This chart, along with the corresponding chart for Forest Service timber under contract in Western Oregon and Washington, shows that the problem faced by the industry relates to volume as well as to price bid for the timber. The sheer size of the volume of timber which must be harvested within the next year -- most of it within the current logging season -- assures that timber sales will be defaulted by all categories of companies. The capacity of the market to absorb the timber is insufficient to handle the volume of timber contracts which must be operated this year.

At the April 22 hearings, Senators Hatfield, Jackson and McC,ure chided the industry for what they believed to be a reversion to the bidding patterns of the late 1970's with bids far in excess of actual timber values. Attached to my statement is an article from yesterday's Portland OREGONIAN noting that bid prices have been stable in public timber sales. It is important to focus on the average bids as the best indicator of actual experience. The Industrial Forestry Association of Portland, Oregon notes on its Bid Monitoring Report for April 1983 that there is "some continued decline in bid prices and a modest upturn in advertised prices on the West Side of the Region. Both bid and advertised prices increased on the East Side. Overall bid ratios fell almost two points."

Almost all of the witnesses at the April 22 hearings supported some type of legislative solution to the current volume under contract situation. Spokesmen for state legislatures, county governing bodies, the financial community, organized labor and the nation's homebuilding industry all urged legislative action. Most thought that S. 916 was a reasonable solution. Even some of those companies which appeared before the Committee in clear opposition to S. 916 indicated support for some legislative action and ageneral willingness to work toward a reasonable solution.

The industry is a victim not only of its inherent competitive nature, but also of the methods by which federal timber is sold and -- most importantly -- of the deliberate decisions by the Federal

Government to affect the money supply and the rate of inflation in October 1979. This action contributed to the significant increase in the cost of money and the mortgage rate for housing, our major market. As a result, all of the projections, including those of the Forest SErvice itself in the Resource Planning Act Assessment and Program for increased product deman and price, have been far from met.

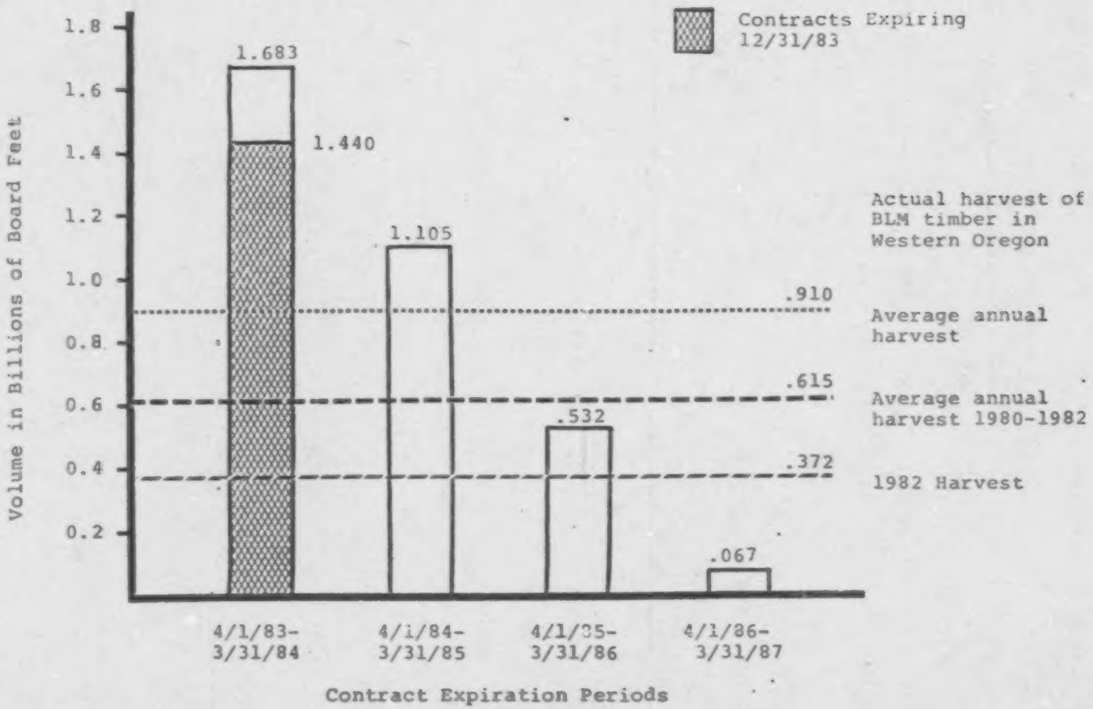
What is sought in S. 916 is the most equitable way out of a most difficult situation involving a substantial part of the nation's productive economy and a major business of the federal government.

The interest of the federal government is many fold: it should be concerned with maintaining a viable local economy, it should be concerned with healthy productive industries, it should be concerned with adequate supplies of building materials for a resurgence in the housing industry, and it should be concerned with maintaining the health and vitality of its customers -- a prudent businessman does not drive his long-term customers to the wall and seek to extract the "last nickel" if the continued existence of that customer is important to the company.

We urge the Committee to report S. 916 for consideration by the Senate.

John F. Hall
Vice President, Resources
National Forest Products Assn.
May 9, 1983

BUREAU OF LAND MANAGEMENT
Estimated Volume of Timber Under Contract
In Western Oregon As Of 4/30/83



Source: Timber Data Company

5/9/83

THE SUNDAY OREGONIAN, MAY 8, 1983

Bid prices remain stable on public timber sales

By JIM KADERA
of The Oregonian staff

5/8/83

Prices bid on national forest timber in Oregon and Washington remained stable in April, the regional bid monitoring report released by the Forest Service indicates.

Bids on 65 sales totaling 203 million board feet averaged $124.36 per thousand board feet, down from $128.44 in March.

Bids in the prime Douglas fir region in Western Oregon averaged $160.60, up about $2 from the previous month. With interest in fir remaining strong, the regionwide average was reduced by a proportionately higher volume of timber sold in Western Washington and east of the Cascades; compared with Western Oregon.

The report offered relief from concern last month that panic bidding was beginning to return with strengthening lumber markets, said Mike Sullivan, public affairs director of the Industrial Forestry Association.

The April sales are "evidence that bidding hasn't gone crazy in the short term," Sullivan said. "We've had orders for lumber about normal for more than three months, and that caused a modest increase in bidding."

Worry about an unusually high March ratio of bids to appraised prices proved misleading, he said. Bids in Western Oregon in March were 5.6 times more than the minimum prices advertised by the Forest Service, but the over-bid ratio was only 3.1 in April.

Sullivan said building product markets changed so quickly that Forest Service appraisals on the March offerings were unrealistically low.

April bids in Western Oregon forests with more than one sale were highest in the Umpqua, at $193.51 per thousand, and the Siuslaw, at $185.22. The Siskiyou, highest in March, dropped to an average of $164.71.

The Forest Service continued its revised policy of offering more shorter-term sales to inhibit price speculation. The April list included 56 sales totaling 122 million board feet to be harvested in three years or less. There were only nine sales with 81 million board feet with more than three years to complete logging.

Meanwhile, the state Department of Forestry reported increasing recovery in logging on state-owned timberlands. Purchasers removed 5,622 truckloads of logs from recovery sales in April, the most of any month this year and about 1,200 more than in March.

Senator WALLOP. Mr. Craig.

STATEMENT OF GEORGE A. CRAIG, FORESTRY CONSULTANT, NATIONAL FOREST PRODUCTS ASSOCIATION

Mr. CRAIG. Mr. Chairman and members of the committee, as Mr. Hall has indicated, I am a consultant, and I have had about 35 years of experience as an industry executive, journalist, and consultant, in dealing with Federal timber problems and issues.

In connection with this type of activity, I was recently asked to analyze a large number of contracts in California to determine the extent to which they were operable under conditions early last year.

The contracts I looked at were 366, involving 60 percent of all the timber under contract by the Forest Service in California, and the result of that analysis was that at that time, the operator at average efficiency could not expect to operate any of those contracts at a break-even point or better.

More recently, I was asked to take a look at the situation now as compared to the 1930's when the Congress saw fit to provide relief to Federal timber sales contract holders because of the severe conditions in the industry at that time.

This analysis, a copy of which is attached to my statement, indicated that while the Depression was certainly a very traumatic period, there were—in some respects, the recent market change, the change in demand in the recent market, was more severe in that we had a longer period of continual dropoff in demand. In any event, in 1935 after a 16-percent increase in demand in the 1934 period, the Congress saw fit to permit the cancellation of any Forest Service contract on application and approval by the Secretary, application by the purchaser.

Because of this background, NFPA asked me to appear here today and attempt to help understand the situation. Obviously it is a very complex situation, and I think that the NFPA testimony which was prepared in cooperation with a number of other organizations, at the last hearing demonstrates well the situation and is factual. There had been, however, some points that had not been covered, and the administration in their writings have indicated a number of reasons why we are in trouble—problems of timber supply caused by Government action or inaction, problems from inflation, multiplicity of difficulties.

The administration, however, has not addressed these two problems that I want to bring to your attention. One of these is the effect of inflation on operating costs for the industry and there is much attention given to inflation in prices, but there has been a very substantial increase in operating costs to the industry which has gone beyond the normal inflation that has been occurring.

I have attached to my statement two tables. The first table includes information from the Forest Service index operations where the cost changes over time, and these cost changes are for the same type of operation, the same type of timber, the same assumptions as the ground conditions, et cetera. As a result of the material that is in table 1, it is evident that in eastern Oregon and Washington, operating costs between 1977 and 1982, third quarter, had increased 68 percent, and in California, the Sierra Nevadas had a 97-percent increase in cost for Forest Service timber sale activities by timber purchasers. This compares with a 54-percent inflation rate indicated by the producer price index for all commodities.

At the same time, the product selling values increased less than 15 percent which means in constant dollars the price of wood products had decreased substantially when the costs were going up as a result of inflation.

The other area that has not been looked at and I believe has not been recognized as a problem until inflation has hit us as it has is a feature that is contract stumpage prices with changes in the lumber market, and I won't go into the details, some of which are in my statement, but the difficulty is that these contracts are tied to a base index and that base index usually runs for a period of 3 to 5 years and is compared with a current index, and the base index is in different dollars than the current index. The current index will have current dollar values, and as a result, they are inflated. The dollar is worthless and as a consequence, in some instances stumpage prices have been adjusted upward when in fact the value of the lumber has decreased, and it is just an aberration resulting from inflation.

I would be pleased to attempt to explain this in response to questions. In conclusion, I urge the adoption of S. 916. It is needed to meet the problems listed by the administration and other Government-caused difficulties that I have described here.

The purchasers of Federal timber have been trapped by the system. They are periodically forced to guess the unfathomable future with others in competition for excessively restricted timber supplies and to bid prices to be paid years later under different market and cost conditions.

This contrasts with the way in which the Canadians sell and price much of their timber. At times our system has bogged down, as at present and in the 1930's. It seems reasonable to face this fact now as was done in 1935, acknowledge the Government's share of responsibility for the breakdown in the system and start over again.

Thank you.

[The prepared statement of Mr. Craig follows:]

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Registered Professional Forester
California License No 448
972 Grosvenor Place
Oakland, CA 94610
Phone: (415) 893-9657

Statement of
George A. Craig
Before the
Subcommittee on Public Lands and Reserved Water
of the
Senate Committee on Energy and Natural Resources
on
S. 916
Washington, D.C.
May 9, 1983

Mr. Chairman and Members of the Subcommittee:

I am George A. Craig, a consulting forester from Oakland, California. For more than 35 years I have been dealing with national forest timber problems as a journalist, an industry association executive, and since 1980 as a consultant. My assignments have included an analysis of the consequences for the operator of average efficiency in early 1982 if he were to work under any of 366 contracts covering 60 percent of the uncut timber under Forest Service contracts in California. Based on Forest Service data, the analysis showed that none of the contracts could be operated at that time without a loss. A copy of that report was filed with the Subcommittee last August.

Another analysis made last November showed that in some respects the lumber industry's experience in recent years has been more traumatic than the experience of the 1930's when there was relatively little drop in the real price of lumber and the drop in demand extended over a shorter term. In contrast with the current situation, when the Congress provided relief to holders of Forest Service timber sale contracts in 1935, there had been a recovery year immediately prior, during which the demand for lumber increased more than 16 percent over the 1933 demand. Further, the 1934 demand level was nearly 39 percent above the demand in 1932 at the bottom of the Depression. A copy of my November report is attached to my prepared statement.

Because of my experience and recent review of these issues, NFPA asked me to appear today in an attempt to assist your review of current problems with inoperable contracts. In preparation, I have carefully reviewed the statement submitted by NFPA and other associations on April 22. In general, I found it to be a thorough and factual discussion of this complex subject. It does not cover, however, two important contributions to the problem that I want to offer for your consideration. They have been overlooked by the Administration, but I believe there are additional good reasons for enacting S. 916.

The Administration Describes The Problem

Secretary Block's November 30, 1982, letter to the chairman of the House Committee on Agriculture and Assistant Secretary Crowell's draft statement for the April 22, 1983, hearing outlined, often in identical language, the difficult problems of western operators dependent on national forest timber. They noted:

> *"The Federal Government plays a significant role in the supply demand situation for lumber and plywood...

> Many purchasers in [the Far West] own little or no forest land and are heavily dependent upon Federal timber for their raw material supply...
>
> *"The forest products industry...expected...increasing volumes would be made available from the large inventories of Federal timber...this did not occur despite the fact that half the standing softwood sawtimber inventory in the United States today is on the National Forests. The National Forests can support a considerable increase in harvest rates...There was fierce competition for the limited timber offerings and in some cases excessive bidding by purchasers. The producer with timber under contract at least had a hope of protecting his investment in processing facilities whereas the producer without timber would have been forced to close his operation...The other factor contributing to high bid prices was uncertainty [about timber supply] caused by controversy over designation of additional National Forest System lands as wilderness...The effect of these factors, plus the pervasive factor of inflation, combined to increase directly prices bid for Federal timber...A number of firms have gone out of business as a result of these competitive factors...
>
> *"The severe slump in home building that began in 1979, because of continued high interest rates for long term borrowing, significantly reduced demand for and prices of timber and plywood..."

In the face of these admissions it is surprising to see the Administration resist significant provisions of S. 916 because: "In a free market system, mistakes are paid for by the person entering the contract." The Federal timber market can hardly be considered a classic example of a free market. It is also discouraging to recollect that the national forests were established under law in part to assure the meeting of the needs of the citizens for timber.

Inflated Operating Costs Ignored

I believe the extent of the need for S. 916 might be better appreciated if some attention was given to what has happened to production costs and the defects in the stumpage rate adjustment provisions of Forest Service contracts. These government caused factors have contributed to the impracticability of operating under many existing contracts.

While much attention has been given to the effects of inflation on prices, the effects on operating costs have been largely overlooked. They can be illustrated with Forest Service data for "index sales." For each timber appraisal zone in California, Oregon, Washington, Montana, and northern Idaho a composite of typical sales has been developed to reflect changing values for the principal species in the zone. At least every calendar quarter the Forest Service revises the prices expected from products to be produced from the appraised timber. Most elements of operating costs are adjusted at least every six months. Such adjustments are based on data collected by the Forest Service from timber purchasers' books.

Each index sale has a set of continuing assumptions as to the size and quality of the timber, ground conditions, log haul, etc. The only changes made in the index sale appraisals are those reflecting new basic price and cost data, except that the Forest Service will change profit ratios when predicting market changes.

Table 1 includes information taken from the Forest Service appraisal summaries for the index sales in three appraisal zones.

The "conversion return" is the estimate of value available to cover stumpage (including the construction of permanent roads) and a margin for profit, risk, income taxes and interest payments.

In five years, between the third quarters of 1977 and 1982, production costs increased 68 percent in eastern Oregon and Washington and 97 percent in the Sierra Nevada of California. At the same time, the BLS Producer Price Index for all commodities increased 54 percent. There has been a substantial real increase in production costs, according to the Forest Service. At the same time, the product selling values increased less than 15 percent. In other words, they have actually decreased substantially in constant dollars.

Unintended Escalation Results

A government mistake for which contract holders are paying relates to stumpage rate adjustment provisions found in most Forest Service timber sale contracts in the West. This feature of the contract has been used for decades to share changes in timber value resulting from changes in lumber prices during the life of a contract. Under the present formula, each contract has "Base Indexes" reflecting prices in the lumber market by species at the time of entering the contract. Quarterly, the Base Index for a species is compared to the current price index and the bid rate for the timber is adjusted to reflect the change in the market. When the current index is above the Base Index, the stumpage is adjusted up by half the difference between the indexes. When the current index is below the Base Index, the adjustment is downward by the full difference.

The mistake has been the failure to anticipate the effects of inflation on this formula. When current indexes are expressed in dollars of much less value than Base Indexes set years before, the tendency is to overcharge for the timber. In some instances the stumpage rate is adjusted upward when the lumber price in constant dollars has decreased.

The current stumpage rate adjustment provision is a crude device. It does not directly reflect changes in operating costs, which can be important as already noted. The larger downward adjustment is intended to compensate, at least in part, for this failure to recognize cost differences. There are other problems that would take considerable time to explain. However, the device does mean that over a period of years, the government will get higher stumpage payments, particularly when inflation persists.

To illustrate the difference between rates escalated under a Forest Service contract and rates reappraised to reflect fully the actual changes in product prices and operating costs, we can use a set of Forest Service index sale appraisals over a period of time. Table 2 makes such a comparison. Not all calendar quarters are represented for technical reasons; the indexes used for appraisals in the subject quarters were "composites" and not the current indexes normally used in stumpage rate adjustments.

In every one of 11 quarterly adjustments for both Douglas fir and white fir, the contract adjustment resulted in charges greater than if the adjustment were based on appraised differences. Such differences commonly exceed $40/MBF during the 5 plus years reviewed. In only two of the 11 quarters did the contract treatment for sugar pine result in lesser adjustments: $1.34 and $3.33.

In conclusion, I urge the adoption of S. 916. It is needed to meet the problems listed by the Administration and other government-caused difficulties described here. The purchasers of federal timber have been trapped by the system. They are periodically forced to guess the unfathomable future with others in competition for excessively-restricted timber supplies and to bid prices to be paid years later under different market and cost conditions. This contrasts with the way in which the Canadians sell and price much of their timber. At times our system has bogged down, as now and in the 1930's. It seems reasonable to face this fact now as was done in 1935, acknowledge the government's share of responsibility for the breakdown in the system and start over again.

# # #

TABLE 1 - APPRAISAL DATA FROM INDEX SALES

	Eastside Ore. & Wash.	Westside Sierra	California Coast Range
Appraisal Date	10/13/77	10/18/77	2/18/77
Product Sell Value	343.28	305.79	253.74
Costs w/o Roads	170.42	132.90	126.34
Conversion Return	172.86	172.89	127.40
Appraisal Date	10/17/79	11/1/79	11/1/79
Product Sell Value	432.50	394.00	367.71
Costs w/o Roads	227.04	189.63	186.30
Conversion Return	205.46	204.37	181.41
Appraisal Date	10/3/80	10/17/80	10/23/80
Product Sell Value	386.07	359.78	335.05
Costs w/o Roads	248.28	208.23	206.99
Conversion Return	127.79	151.55	128.06
Appraisal Date	N/A*	11/26/82	11/26/82
Product Sell Value	389.96	350.34	307.57
Costs w/o Roads	286.24	261.85	269.53
Conversion Return	103.72	88.49	38.04

* Appraised to 3rd Quarter 1982 as are others on this line.

Source: USDA Forest Service

TABLE 2 - FOREST SERVICE INDEX OPERATION FOR COAST RANGE SUBREGION
APPRAISED STUMPAGE RATES ADJUSTED AND REAPPRAISED
FROM SECOND QUARTER 1977
BASE INDEXES: SP 366.41, WF 178.28, DF 199.24

	Sugar Pine		White Fir		Douglas Fir	
	Contract Adjstd.	Reap-praised	Contract Adjstd.	Reap-praised	Contract Adjstd.	Reap-praised
2nd Q 1977	151.70	151.70	31.50	31.50	105.35	105.35
3rd Q 1978	214.91	218.24	50.45	39.63	164.66	117.60
Difference	-3.33		+10.82		+47.06	
4th Q 1978	213.50	207.48	53.22	40.84	129.27	129.76
Difference	+6.02		+12.38		+0.49	
3rd Q 1979	217.33	201.96	64.28	50.00	137.75	135.29
Difference	+15.37		+14.28		+2.46	
2nd Q 1980	179.44	141.25	29.34	-24.31	98.03	57.86
Difference	+38.19		+53.65		+40.17	
3rd Q 1980	182.43	165.36	40.43	-8.98	115.44	90.63
Difference	+17.07		+49.41		+24.81	
4th Q 1980	205.59	198.47	44.26	-5.14	116.96	85.46
Difference	+7.12		+49.40		+31.50	
1st Q 1981	217.29	218.63	41.35	-15.04	113.22	74.00
Difference	-1.34		+56.39		+39.22	
4th Q 1981	175.31	144.82	26.69	-42.53	90.07	28.36
Difference	+30.49		+69.22		+61.71	
2nd Q 1982	169.04	108.91	23.17	-68.77	81.51	-5.39
Difference	+60.13		+91.94		+86.90	
3rd Q 1982	169.86	94.52	22.19	-72.77	79.45	2.05
Difference	+75.34		+94.96		+77.04	
4th Q 1982	168.54	88.65	17.53	-78.94	75.95	-5.28
Difference	+79.89		+96.47		+81.23	

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THE LUMBER DEPRESSION AND OTHER CONSIDERATIONS JUSTIFYING RELIEF FROM FOREST SERVICE CONTRACTS

November 10, 1982

THE LUMBER DEPRESSION AND OTHER CONSIDERATIONS JUSTIFYING RELIEF FROM FOREST SERVICE CONTRACTS

Responding to changed conditions that made completion of Forest Service contracts impracticable, the 74th Congress authorized in 1935 the cancellation of national forest timber sale contracts without penalty where application was made within a year. The Congress is currently considering legislation to meet a similar problem. There are good reasons for doing so. In some important respects, changes for the lumber industry in recent years have been more traumatic than those which occurred during the Great Depression.

Apparently these changed conditions and the appropriateness of relief for holders of Government timber sale contracts are not fully understood by some decision makers in the Administration, who have opposed the legislation. They appear to believe this is an ordinary problem common to all business recessions: contract holders having difficulties in meeting their obligations and being forced to operate at a loss under some contracts. If this is their understanding, their decision was reasonably guided by such principles as a deal is a deal and buyer beware.

The Administration has expressed concern about fairness and equity for the public and various elements of the forest products industry.(1) The Government's contributions to the problem noted below seem sufficient reason for it to be concerned about fairness and equity for its contract holders.

Cost to the Government of contract relief apparently is given as an important reason for the Administration's opposition. For penalties to be available on default, there must be values obtainable under most contracts that would be foregone by providing relief. Generally, there is not, if contract values in California are any indication. (2)

The Forest Service has recently estimated the cost to the Government from the default of such contracts, absent relief, at 600 to 900 million dollars in Western Oregon and Washington. This compares to costs to the Government of 1.4 billion dollars estimated to result from the proposed legislation, according to the Forest Service.

The Forest Service acknowledges its analysis of the "no relief" approach "[d]oes not include costs to the Government of unemployment benefits, reduced income tax receipts, or secondary costs associated with bankruptcy." (3)

Deficiencies in this Forest Service review include failure to recognize the cost to the Government of bankruptcy disruptions of existing markets for future timber offerings. The review did not identify the consequences of contract defaults in other Forest Service regions.

GOVERNMENT CONTRIBUTIONS TO THE PROBLEM

Apparently a consideration in the 1935 decision to provide relief was recognition that many contracts were inoperable because they had been entered prior to 1932 under very different conditions. Such changes have been occurring in recent years, as recognized by some Government officials. The Forest Service wrote earlier this year:

> "The economic climate has changed significantly and so has the timber producer's situation. Many have high priced National Forest timber sales under contract. The prices were bid competitively during economic times that were entirely different from the current climate. These National Forest timber purchasers are caught in a squeeze from which there seems no relief. Costs keep increasing and markets have evaporated..." (4)

The relative extent to which the Government has created or contributed to the problem by its actions or inaction recently and 50 years ago could be debated. However, there is much more dependency now on Federal timber than there was in the 1930's, so Government concern about solutions should be greater. Such dependency was anticipated by the Congress 85 years ago, when it established supplying timber and water as purposes of the Federal forest reserves that became the national forests. [16 U.S.C.475]

Assistant Secretary of Agriculture John Crowell signified recognition of considerable Government responsibility for causing the current problem.(1) He noted the large extent to which mills in some regions are dependent on Federal timber and the unfulfilled expectations of mill operators that more timber would be sold from the large inventories of old growth timber on western Federal forest lands.

Federal timber sales have remained virtually at the same level for the last 13 years, despite half the standing softwood sawtimber in the United States being on the National Forests, he said, adding: "The timbered portion of the National Forests and their natural growth rates could support a considerable increase in harvest rates."

"Thus, because the Federal Government did not sell timber in volumes sufficient to support existing mill capacity, and there was insufficient volumes of private timber in certain areas, excessive bidding by mill owners occurred with each trying to acquire an adequate supply of raw material. The competition for limited timber offerings has been fierce. The operator with timber under contract at least had a hope of protecting his investment, whereas the one without timber was forced to close his operation and to liquidate his mill facility," explained Secretary Crowell.

In addition he noted the damage done by inflation and the uncertainty caused by controversy over designation of additional National Forest System lands as wilderness.

One unanticipated consequence of inflation has been an increase in stumpage charges under some Forest Service contracts, when they should have been reduced. This is another justification for contract relief.

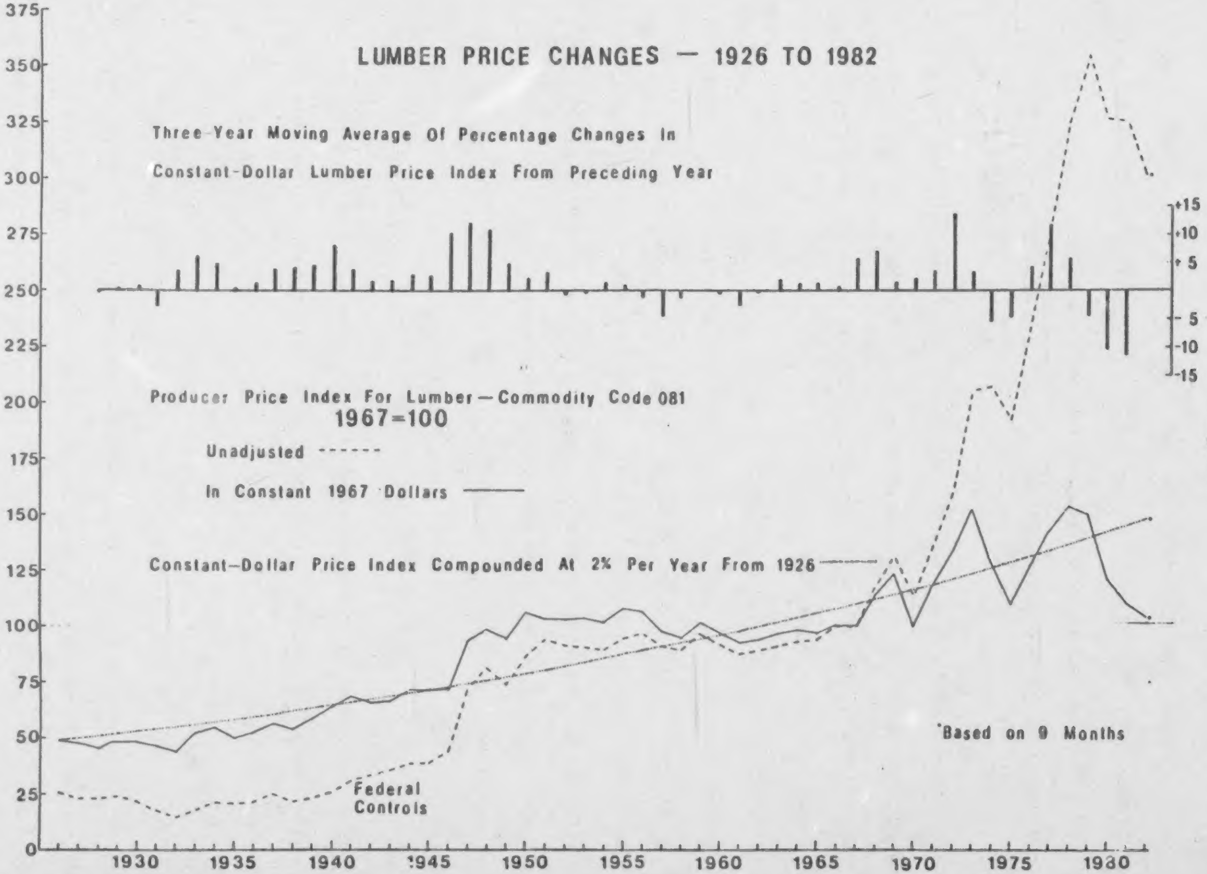
The problem occurs under most Forest Service contracts used in the West outside of coastal Oregon and Washington. It was described in a report prepared earlier this year (5), and could cause overcharges totalling many millions of dollars. These contracts adjust stumpage charges in response to changes in lumber price indexes from a base period to the various times when timber is harvested.

The difficulty arises during high rates of inflation, because the lumber price indexes are in current dollars. The differences in the indexes do not reflect actual changes in value. They are measured in dollars with different values. As a result, inflation in lumber prices may cause stumpage rates to be increased, when the increase in lumber prices has been at a slower rate than inflation in the economy as a whole. Under such circumstances, the Government is not sharing in the increased value of the timber; it is increasing costs for raw material that already is declining in value.

The Government has also contributed to the problem by predicting increasing demand for lumber for this time of extreme recession, as documented below.

LONGEST PERIOD OF CONTINUOUSLY DROPPING PRICES

The recent drop in lumber prices is extraordinary. At no other time in the past 56 years has the annual-average constant-dollar price of lumber dropped in each of four consecutive years. Further, the drop in price since 1978 exceeded 32 percent of the 1978 price in constant dollars. Between



Source: USDL Bureau of Labor Statistics

Figure 1

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TABLE 1 - INDEXES OF LUMBER PRICES, SHIPMENTS & DEMAND COMPARED TO GNP

Sources: Producer Price Index (1967-100)-USDL Bureau of Labor
Statistics; Shipments-National Forest Products Assn.;
Gross National Product-USDC Bureau of Economic Analysis.

Year	Prod. Price Index 1967 =100	Percent Change		1926 Price @ 2%	Lumber Shipments 1967 =100	Demand Index 1967 =100	Percent Change		GNP Index 1967 =100	Percent Change	
		One Year	3-Yr. Avrg.				One Year	3-Yr. Avrg.		One Year	3-Yr. Avrg.
1926	48.8	-2.8		48.8	115.1	56.2	-8.2				
1927	47.7	-4.8	-0.4		108.1	51.6	-6.4	-3.6			
1928	45.4	+6.0	+0.5		106.4	48.3	+3.7	-10.3			
1929	48.1	+0.2	+0.9		104.2	50.1	-28.3	-17.9	31.2	-9.6	
1930	48.2	-3.5	-2.9		74.5	35.9	-29.0	-29.4	28.2	-7.5	-10.3
1931	46.5	-5.4	+3.4	53.9	54.9	25.5	-31.0	-6.4	26.1	-13.8	-7.8
1932	44.0	+19.1	+6.2		39.9	17.6	+40.9	+2.8	22.5	-2.2	-2.9
1933	52.4	+4.8	+4.9		47.3	24.8	-1.6	+18.6	22.0	+7.3	+4.7
1934	54.9	-9.1	+0.3		44.5	24.4	+16.4	+15.0	23.6	+8.9	+9.9
1935	49.9	+5.2	+1.2		56.9	28.4	+30.3	+18.5	25.7	+13.6	+9.2
1936	52.5	+7.4	+3.7	59.5	70.4	37.0	+8.9	+8.7	29.2	+5.1	+4.7
1937	56.4	-3.7	+4.0		72.4	40.3	-13.2	+7.4	30.7	-4.6	+2.8
1938	54.3	+8.3	+4.3		64.4	35.0	+26.6	+12.9	29.3	+7.9	+3.9
1939	58.8	+8.3	+8.0		75.3	44.3	+25.3	+24.7	31.6	+7.6	+10.7
1940	63.7	+7.2	+3.9		87.2	55.5	+22.2	+18.9	34.0	+16.5	+13.2
1941	68.3	-4.0	+1.6	65.7	99.2	67.8	+9.3	+8.3	39.6	+15.4	+15.7
1942	65.6	+1.5	+1.8		112.9	74.1	-6.6	+0.9	45.7	+15.1	+12.5
1943	66.6	+7.8	+2.8		103.9	69.2	0.0	-6.8	52.6	+7.0	+6.8
1944	71.8	-0.8	+2.6		96.4	69.2	-13.9	+0.5	56.3	-1.6	-3.1
1945	71.2	+0.7	+10.1		83.7	59.6	+15.4	+12.6	55.4	-14.6	-6.0
1946	71.7	+30.4	+12.0	72.5	96.0	68.8	+36.3	+19.3	47.3	-1.7	-4.1
1947	93.5	+4.9	+10.9		100.3	93.8	+6.3	+10.9	46.5	+4.1	+1.0
1948	98.1	-2.8	+4.8		101.6	99.7	-9.9	+10.1	48.4	+0.6	+4.4
1949	94.4	+12.2	+2.2		95.1	89.8	+34.0	+6.5	48.7	+8.6	+5.8
1950	105.9	-2.8	+3.2		113.6	120.3	-4.7	+9.2	52.9	+8.3	+6.9
1951	102.9	+0.1	-0.8	80.1	105.6	114.7	-1.7	-3.6	57.3	+3.7	+5.3
1952	103.0	+0.3	-0.5		109.4	112.7	-4.5	-2.4	59.4	+3.9	+2.1
1953	103.3	-1.7	+1.3		104.2	107.6	-0.9	+3.0	61.7	-1.3	+3.1
1954	101.5	+6.0	+1.1		105.0	106.6	+14.4	+1.9	60.9	+6.7	+2.5

- MORE -

TABLE 1 - (Continued)

Year	Prod. Price Index 1967 =100	Percent Change		1926 Price @ 2%	Lumber Ship-ments 1967 =100	Demand Index 1967 =100	Percent Change		GNP Index 1967 =100	Percent Change	
		One Year	3-Yr. Avrg.				One Year	3-Yr. Avrg.		One Year	3-Yr. Avrg.
1955	107.6	-1.1	-1.2		113.3	121.9	-7.8	-3.4	65.0	+2.2	+3.6
1956	106.4	-8.5	-4.5	88.4	105.6	112.4	-16.7	-8.6	66.4	+1.8	+1.2
1957	97.4	-2.9	-1.3		96.1	93.6	-1.3	+0.2	67.6	-0.4	+2.5
1958	94.6	+5.1	0.0		97.7	92.4	+18.7	0.0	67.3	+6.1	+2.6
1959	101.7	-4.6	-0.6		107.9	109.7	-17.4	-1.3	71.4	+2.1	+3.6
1960	97.0	-4.6	-2.6		93.4	90.6	-5.3	-5.8	72.9	+2.6	+4.6
1961	92.5	+1.5	-0.1	97.6	92.8	85.8	+5.2	+2.5	74.8	+9.0	+5.2
1962	93.9	+2.8	+2.0		96.2	90.3	+7.5	+5.8	79.1	+4.1	+6.2
1963	96.5	+1.7	+1.2		100.6	97.1	+4.6	+3.7	82.3	+5.4	+5.2
1964	98.1	-0.8	+1.3		103.6	101.6	-0.9	+2.3	86.7	+6.0	+5.8
1965	97.3	+3.1	+0.7		103.5	100.7	+3.1	-0.5	91.9	+6.0	+4.9
1966	100.3	-0.3	+5.8	107.8	103.5	103.8	-3.7	+6.4	97.4	+2.7	+4.4
1967	100.0	+14.5	+7.1		100.0	100.0	+19.9	+7.4	100.0	+4.6	+3.4
1968	114.5	+7.1	+1.6		104.7	119.9	+6.0	+1.3	104.6	+2.8	+2.4
1969	123.6	-16.7	+2.1		102.8	127.1	-21.9	+4.7	107.5	-0.2	+2.0
1970	103.0	+15.9	+3.5		96.4	99.3	+30.0	+8.1	107.3	+3.5	+3.0
1971	119.3	+11.3	+13.7	119.0	108.6	129.6	+16.1	+16.2	111.0	+5.7	+4.0
1972	133.8	+13.8	+3.4		112.4	150.4	+2.4	0.0	117.3	+5.8	+3.6
1973	152.3	-15.0	-5.4		101.1	154.0	-18.6	-11.8	124.1	-0.6	+1.4
1974	129.4	-14.9	-4.8		96.9	125.4	-19.1	-2.7	123.4	-1.1	+1.2
1975	110.1	+15.6	+4.2		92.1	101.4	+29.6	+9.9	122.0	+5.4	+3.2
1976	127.3	+11.9	+11.9	131.4	103.2	131.4	+19.1	+19.0	128.6	+5.3	+5.2
1977	142.4	+8.2	+5.9		109.9	156.5	+8.2	+7.4	135.4	+5.0	+4.3
1978	154.0	-2.3	-4.5		115.8	169.4	-5.0	-9.4	142.2	+2.7	+2.4
1979	150.4	-19.4	-10.3		107.0	160.9	-31.5	-17.0	146.3	-0.4	+1.4
1980	121.2	-9.2	-11.3		90.9	110.2	-14.6	-20.2	145.7	-2.0	+0.1
1981	110.1	-5.2		145.0	85.5	94.1	-14.4		148.6	-1.2	
1982	104.4*			148.0	76.3#	79.7			146.8*		

*Based on first 9 months
#Annual data based on first 8 months

1973 and 1975, the price drop was under 28 percent. From 1930 to 1932, at the depths of the Depression, the drop was less than 9 percent, and it was more than offset by a price rise in 1933, as shown in Table 1 and Figure 1.

This analysis has used the Bureau of Labor Statistics' Producer Price Index for all species of lumber (Commodity Code 081 in Appendix). A separate index for softwood lumber, more representative of products from most Forest Service timber sales, is not available for the full period under review. The lumber index was converted to constant 1967 dollars with the Producer Price Index for all commodities.

The current level of lumber prices is especially remarkable when compared to the long-term trend in such prices. Professor Zaremba found that between 1850 and 1958 lumber prices in constant dollars increased roughly three percent per year. (6) Potter and Christy declared: "Lumber represents a classic case of increasing scarcity." (7)

Zaremba wrote: "During the depression of the 1930's, when the lumber industry as a whole operated at a loss, the price of lumber did not decline to the previous low points of 1908 and 1915. Thus, despite a powerful downward pressure on lumber prices exerted by declining lumber demand, lumber prices remained at a relatively high level throughout the 1930's."

He explained this trend as the result of a net lag in productivity in the lumber industry. "On the one hand, there has been some technological progress in logging, transportation, milling and remanufacturing. But on the other hand, this progress appears to have been largely canceled out by such trends as declining size and quality of raw material and increasing distance between forest and consumer." He summarized as follows:

> "Rising per capita productivity in an era of rather constant all-commodity prices leads to an increase in money wage rates

throughout the economy. Productivity in the lumber industry meanwhile lags behind that in the economy at large, and so the industry's unit costs are forced upward. Lumber prices in the long run conform to costs. Rapidly rising per capita productivity in the American economy together with slow progress in productivity in the lumber industry may thus be thought of as the cause of the upward trend of lumber prices."

While we do not now have a rapid rise in productivity in the American economy, timber operating costs have increased greatly in real terms in recent years if data collected by the Forest Service in California are representative. (2) Further, there have been great increases in charges for the raw material--timber. Zaremba noted: "if stumpage continues to increase at a faster rate than lumber prices, it will become an increasingly important factor in the lumber price trend." (6)

The Forest Service reported in 1976: "in the past, increases of 50-60 percent in softwood lumber prices have resulted in a rise of over 100 percent in relative average prices of softwood sawtimber stumpage." (8) In 1980, the agency reported that as a result of projected increases in softwood stumpage prices, softwood lumber prices would rise at an average annual rate in the 1976-90 period of about 3.6 percent per year. (9)

While indicating differences could be expected if their basic assumptions were wrong, the Forest Service made some projections in 1980 of the timber demand-supply-price outlook for softwoods. This was part of the Forest Service assessment of the resource situation required by law. The agency said:

> "It is evident...that a substantial rise in the relative prices of softwood stumpage and most softwood timber products...will be necessary to balance demand and supplies in future decades...These

projections show softwood stumpage prices [in constant dollars] rising substantially in all regions... In all regions the rates of increase are largest in the first decade of the projection period." (8)

Obviously, there will be problems with contractually-fixed high stumpage rates when lumber prices decline instead of rise, as the Government predicted.

For comparison purposes, a lumber price trend line is shown in Figure 1 from 1926 to the present increasing at a two-percent-per-year compounded rate. The current lumber price index is nearly 44 points below the trend line.

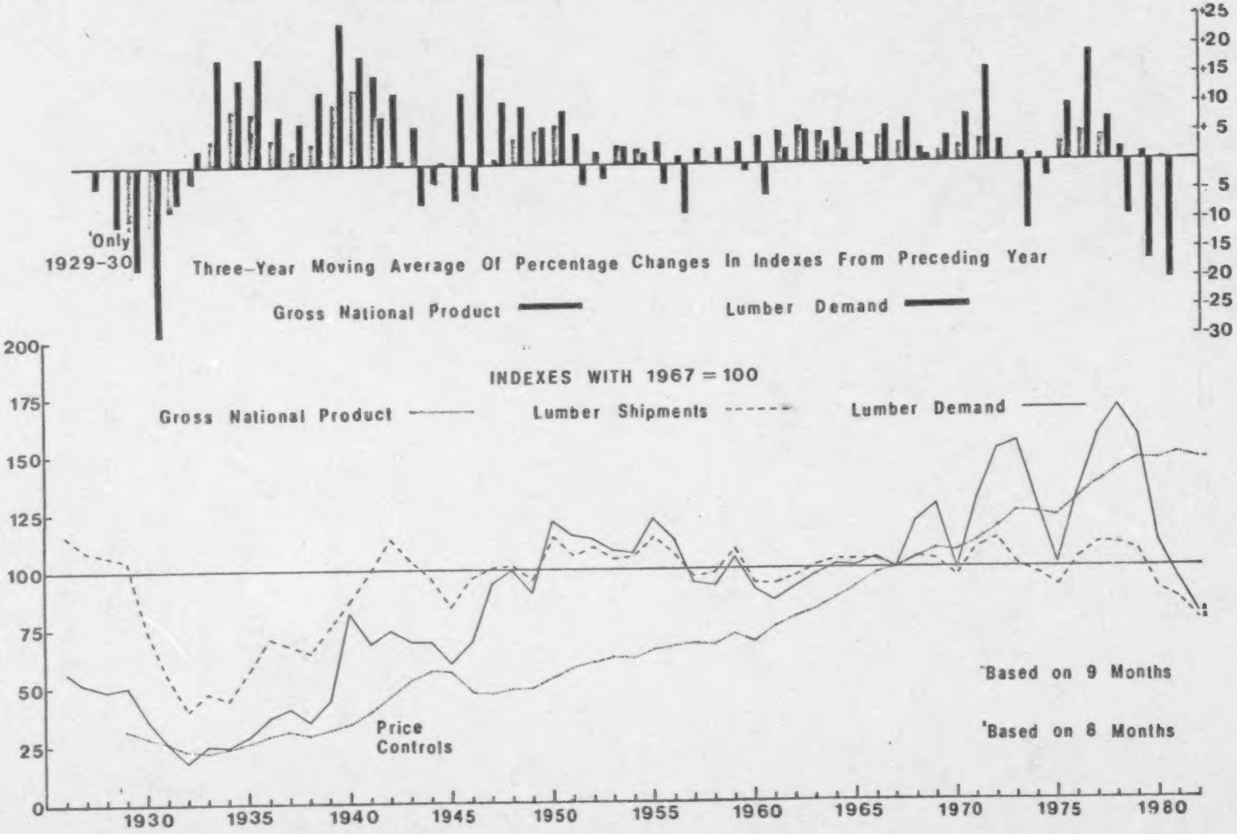
The upper part of Figure 1 was prepared to show the cycles in lumber price changes. By using a three-year moving average of year-to-year percentage changes, the movements are dampened and the pattern is more evident.

In the 1930's there was only one three-year period when the average change in lumber price was downward. In 1929-32 the average drop was only 2.9 percent. In 1977-80, 1978-81 and 1979-82, the average reductions were respectively 4.5, 10.3 and 11.3 percent. No other periods in the 56 years of changes examined had price reductions nearly as large as the last two reported here.

NOT AN ORDINARY RECESSION FOR LUMBER

Of course, quantity must be considered with price to get an expression of demand. Table 1 and Figure 2 show an index of total lumber shipments from U. S. producers with 1967 equal to 100. The demand index was created by multiplying the shipment index by the price index in Table 1, again with 1967 equal to 100.

CHANGES IN DEMAND FOR U.S.-PRODUCED LUMBER — 1926 TO 1982



Source: National Forest Products Association
USDC Bureau of Economic Analysis

- Figure 2 -

G. Craig
11/82

As reported earlier (2), housing starts have been very low this year —less than half the level of 10 years ago. Based on the seasonally-adjusted annual rate of starts in August, this year's total of private starts will be less than 42 percent of the 1972 figure.

Housing construction nearly stopped, however, in 1932, and the average annual rate in 1930-39 was only about 36 percent of the August 1982 level. (8) As a result of this and the generally reduced demand from other consumers, shipments of lumber in 1932 were, respectively, 38 percent and 35 percent of shipments in 1926 and 1929.

When the "relatively high level" of lumber prices in the 1930's are applied to the low shipments of that period, the demand index drops to about 25 percent of the 1967 level. Although lumber shipments dropped for six consecutive years after 1926, the demand index improved a little in 1929 over the previous year. Thus, there were only three consecutive years of dropping demand, ending in 1932.

In contrast, the demand index has dropped four consecutive years in a row, including this year. The drop in demand in 1980 from 1979 was 31½ percent, which was more than the 1931 to 1932 reduction and the sharpest drop in all the 56 years under review.

Demand for lumber can be expected to shift with changes in the nation's economy. To illustrate the comparative performances, the annual gross national product (GNP) in constant dollars from 1929 has also been converted to an index with 1967 as 100.

As the graph shows, the lumber demand index was below the GNP index in only two years prior to 1970. In 1932, the lumber demand index was at 17.6 and the GNP index at 22.5 or nearly 28 percent higher. In 1982, on the basis of data for the first eight months, the lumber demand index was at 79.7 and the GNP index at 146.8 or nearly 46 percent higher.

The lumber demand index has been the lower in the most recent three years. With 1967 as the base year, there were only two additional years besides 1932 when the lumber demand index was the lower, 1970 and 1975.

With a different base year for comparison, the results would be different. However, the shapes of the curves would be the same and the differences between them would still show the depressed demand for lumber in recent years compared to activity in the general economy.

Here again, the year-to-year changes have been expressed as percentages and converted to three-year moving averages. While the average year-to-year percentage decrease in lumber demand from 1929 to 1930, 1930 to 1931 and 1931 to 1932 was 29.4, the average difference since 1979 has been even worse when compared to the GNP index. The spread was 19.1 in the early 1930's and 20.3 at the beginning of the 1980's.

In summary, it would seem reasonable to conclude the lumber industry is in a "depression." While September data on single-family home sales and home mortgage interest rates in October, just reported, suggest recovery may be starting, there is considerable uncertainty as to the rate of recovery.(2)

In contrast, when the Congress provided relief to holders of Forest Service timber sale contracts in 1935, there had been a recovery year immediately prior, during which the demand for lumber increased nearly 16½ percent over the 1933 demand. Further, the 1934 demand level was nearly 39 percent above the demand in 1932 at the bottom of the depression.

One recent analysis was made of the improvement needed for most Forest Service contracts to reach the breakeven point. It was based on California data and showed the situation would need to improve more than it did in 1976-77, after the 1974-75 recession.(2) There is no reason to expect such an improvement.

George A. Craig
George A. Craig
November 10, 1982

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APPENDIX

United States Department of Labor, Bureau of Labor Statistics

Producer Price Index

PPI 081 Lumber BASE 1967 = 100

YR	ANN AVG	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
1926	25.2	25.8	25.8	25.7	25.6	25.2	25.0	24.8	24.7	24.7	24.6	25.1	24.8
1927	23.2	24.6	24.2	24.0	24.0	24.0	24.0	23.7	23.3	23.1	23.1	22.6	22.6
1928	22.7	22.5	22.5	22.5	22.1	22.2	22.3	22.3	22.8	23.0	23.2	23.3	23.5
1929	23.6	23.3	23.6	24.2	23.9	23.7	23.6	23.6	23.6	23.8	24.1	23.1	23.1
1930	21.3	22.2	22.0	22.0	22.0	22.5	21.5	21.0	20.3	20.6	20.0	20.1	19.6
1931	17.5	19.2	18.6	18.7	18.5	17.6	17.3	16.9	16.8	16.8	16.6	16.0	16.6
1932	14.8	14.5	15.6	15.6	15.0	14.9	16.5	16.3	13.9	14.1	14.2	14.2	14.2
1933	17.8	14.1	14.1	14.5	14.5	14.9	16.5	19.1	19.9	20.8	21.2	21.7	22.0
1934	21.8	22.0	22.0	21.7	22.0	21.6	21.7	21.6	20.6	20.7	20.6	20.4	20.4
1935	20.6	20.0	19.9	19.6	19.6	20.1	20.9	21.6	21.3	21.2	20.9	20.6	20.8
1936	21.9	21.1	21.2	21.7	22.0	22.0	22.0	21.7	21.6	21.8	21.8	22.0	23.0
1937	25.1	24.3	25.0	26.7	26.8	26.6	25.7	25.1	24.9	24.8	24.2	23.6	22.5
1938	22.0	22.2	22.0	22.0	21.9	21.6	21.1	21.2	21.9	22.0	22.0	22.0	22.9
1939	23.6	23.0	23.1	23.1	22.9	22.6	22.5	22.5	22.9	23.0	25.0	25.1	25.0
1940	25.8	24.8	24.5	24.5	24.3	24.2	23.8	23.8	24.7	26.9	28.8	29.5	29.9
1941	30.8	29.7	29.6	29.2	29.3	29.3	29.6	30.7	32.0	32.5	32.6	32.6	32.6
1942	33.6	33.0	33.4	33.4	33.3	33.0	33.0	33.4	33.4	33.6	33.6	33.8	33.6
1943	35.5	33.9	34.2	34.3	34.3	34.7	34.9	35.1	36.2	37.2	37.2	37.2	37.2
1944	38.9	37.2	38.2	38.3	38.7	38.8	38.8	38.8	38.8	38.8	38.8	38.7	38.7
1945	38.9	38.7	38.8	38.8	38.8	38.8	38.9	38.8	39.0	38.8	39.0	39.0	39.7
1946	46.7	39.8	40.2	42.1	43.1	43.6	44.2	44.6	44.6	44.7	44.9	46.2	57.1
1947	71.5	63.9	65.6	66.5	70.4	70.7	70.1	70.8	72.2	74.2	75.2	77.5	78.8
1948	81.2	79.7	80.2	80.7	80.9	82.0	82.1	82.5	83.0	82.5	81.4	80.3	79.1
1949	74.3	78.3	77.3	76.7	75.7	74.5	73.4	72.3	71.1	71.8	72.3	73.3	74.4
1950	86.6	75.6	77.5	79.2	80.5	83.0	85.0	88.3	92.1	95.3	93.9	93.6	93.7
1951	93.7	95.2	95.8	96.0	96.0	95.0	94.2	93.3	92.3	91.7	91.6	91.0	91.3
1952	91.3	91.2	91.4	91.5	92.0	91.8	91.1	91.3	91.6	91.6	91.1	91.0	90.9
1953	90.3	91.1	91.2	91.7	92.2	91.8	91.1	91.1	90.5	88.7	88.8	88.2	88.3
1954	88.0	87.9	87.6	87.6	87.6	87.2	87.6	88.5	88.9	90.2	90.6	90.6	90.8
1955	94.5	91.1	92.1	92.4	93.3	94.3	94.6	94.9	95.9	96.6	96.1	95.9	95.8
1956	96.5	96.9	97.2	98.5	99.1	99.0	98.0	97.5	96.6	95.0	94.7	93.5	93.0
1957	90.6	93.1	92.5	92.0	92.0	91.5	91.4	91.1	90.6	89.8	89.1	88.8	88.6
1958	89.5	88.5	88.1	87.9	88.0	88.6	89.7	88.5	90.3	91.8	91.7	91.1	91.1
1959	96.6	91.8	93.5	95.2	96.1	97.8	98.9	98.5	98.5	98.2	97.0	95.4	95.6
1960	93.1	95.7	95.7	95.5	95.3	94.7	93.6	92.3	90.6	89.6	88.2	87.6	87.2
1961	87.6	86.8	86.0	86.7	88.3	88.7	88.7	88.5	87.6	87.6	85.7	86.5	86.6
1962	89.0	86.7	87.5	88.6	89.3	89.9	90.2	90.6	90.1	89.7	89.2	88.8	88.6
1963	91.2	88.5	88.7	89.1	90.0	90.8	91.5	94.2	94.7	92.9	91.6	91.6	91.5
1964	92.9	91.5	92.5	93.5	94.1	94.3	93.8	93.6	93.3	92.9	92.6	91.5	91.6
1965	94.0	93.0	93.5	93.5	93.2	93.2	93.3	93.6	94.0	95.1	95.0	95.0	95.4
1966	100.1	96.2	97.6	98.9	102.2	104.4	103.7	101.9	101.7	101.0	99.6	97.6	96.4
1967	100.0	96.4	97.3	97.8	98.3	98.8	99.6	99.7	101.2	103.4	102.6	101.9	103.1
1968	117.6	105.3	108.2	111.1	114.1	115.7	115.4	117.8	119.0	121.3	123.2	125.6	131.3
1969	131.6	136.5	143.8	152.0	152.2	143.9	131.4	123.7	120.9	119.6	118.2	119.3	118.3
1970	113.7	117.1	114.6	113.5	113.8	114.7	113.5	112.4	113.5	114.3	113.8	112.2	111.0
1971	136.0	113.0	120.3	129.1	132.2	133.4	135.1	143.3	147.8	147.6	143.2	142.4	144.9
1972	159.4	144.9	150.4	152.6	155.1	157.0	159.0	161.6	164.1	165.1	166.1	166.8	167.9
1973	205.2	169.0	182.3	195.8	207.2	215.6	216.8	209.6	210.8	216.9	214.5	211.1	214.8
1974	207.1	213.3	212.6	221.4	230.9	227.3	220.2	214.2	208.7	199.6	183.6	178.1	177.2

L10

PPI 081 Lumber BASE 1967 = 100

YR	ANN AVG	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
1975	192.5	176.5	181.3	182.3	189.3	200.7	199.7	196.0	197.8	196.6	196.0	195.1	200.2
1976	233.0	210.2	219.6	230.4	240.4	227.3	224.2	231.2	236.2	244.3	245.6	244.3	252.1
1977	276.5	257.9	259.4	264.4	268.8	268.3	264.6	275.9	286.4	301.7	292.6	284.8	291.0
1978	322.4	300.4	308.5	312.5	316.7	316.5	320.0	319.1	326.7	332.2	334.5	342.0	334.1
1979	354.3	336.6	339.9	350.5	355.4	354.0	354.8	355.0	365.3	373.9	370.3	355.6	339.5
1980	321.8	336.3	341.4	340.6	310.1	301.4	313.0	327.2	333.7	328.0	320.6	324.9	333.0
1981	325.1	331.3	326.9	326.2	313.6	312.3	335.8	332.4	329.0	320.2	311.7	306.6	310.0
1982	NA	310.0	308.1	309.2	312.9	314.8	315.2	314.2	312.7	311.3	NA	NA	NA

NA NOT AVAILABLE

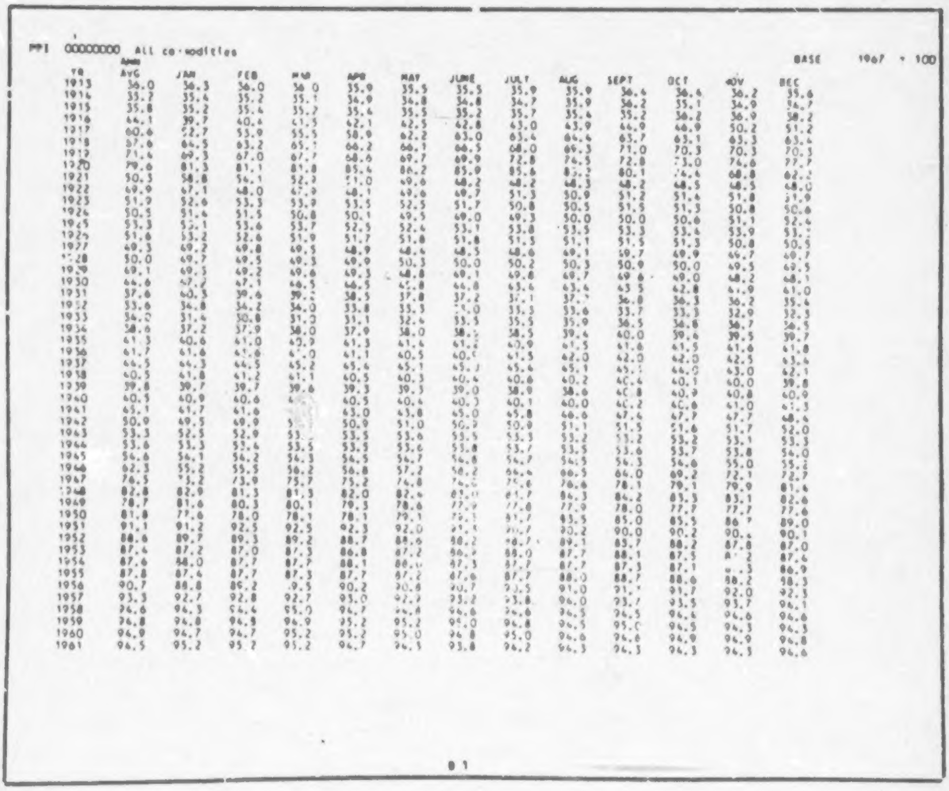
10/15/82

UNITED STATES DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS

PRODUCER PRICE INDEX
All Commodities, 1967=100

YEAR	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC	ANNUAL AVERAGE
1951	91.2	92.5	92.5	92.3	92.0	91.3	90.7	90.2	90.0	90.2	90.2	90.1	91.1
1952	89.7	89.3	89.2	88.7	88.6	88.2	88.7	89.1	88.7	88.2	87.8	87.0	88.6
1953	87.2	87.0	87.3	86.8	87.2	86.9	88.0	87.7	88.1	87.5	87.2	87.4	87.4
1954	88.0	87.7	87.7	88.1	88.0	87.3	87.7	87.7	87.3	87.1	87.3	86.9	87.6
1955	87.4	87.7	87.3	87.7	87.7	87.6	87.7	88.0	88.7	88.6	88.2	88.3	87.8
1956	88.8	89.2	89.5	90.2	90.8	90.7	90.5	91.0	91.7	91.7	92.0	92.3	90.7
1957	92.7	92.8	92.7	93.0	92.9	93.2	93.8	94.0	93.7	93.5	93.7	94.1	93.3
1958	94.3	94.4	95.0	94.7	94.8	94.6	94.6	94.5	94.5	94.4	94.6	94.6	94.6
1959	94.8	94.8	94.9	95.2	95.2	95.0	94.8	94.5	95.0	94.5	94.3	94.3	94.8
1960	94.7	94.7	95.2	95.2	95.0	94.8	95.0	94.6	94.6	94.9	94.9	94.8	94.9
1961	95.2	95.2	95.2	94.7	94.3	93,8	94.2	94.3	94.3	94.3	94.3	94.6	94.5
1962	95.0	94.9	94.9	94.6	94.4	94.3	94.6	94.7	95.4	94.8	94.9	94.6	94.8
1963	94.7	94.4	94.2	94.0	94.3	94.5	94.8	94.6	94.5	94.7	94.9	94.5	94.5
1964	95.2	94.7	94.6	94.5	94.3	94.3	94.6	94.5	94.9	95.0	94.9	94.9	94.7
1965	95.2	95.4	95.5	95.9	96.2	96.9	97.0	97.0	97.1	97.2	97.5	98.1	96.6
1966	98.6	99.3	99.3	99.4	99.5	99.6	100.3	100.7	100.7	100.1	99.8	99.8	99.8
1967	100.1	99.9	99.6	99.2	99.7	100.2	100.3	100.0	100.1	100.1	100.1	100.8	100.0
1968	101.1	101.9	102.1	102.1	102.4	102.5	102.8	102.5	102.9	102.9	103.3	103.6	102.5
1969	104.3	104.8	105.4	105.5	106.3	106.8	107.0	106.9	107.1	107.4	108.1	108.6	106.5
1970	109.3	109.7	109.9	110.0	110.0	110.4	110.9	110.4	111.0	110.9	110.9	111.0	110.4
1971	111.8	112.8	113.1	113.4	113.9	114.4	114.7	115.1	114.6	114.5	114.6	115.6	114.0
1972	116.3	117.3	117.4	117.5	118.2	118.8	119.7	119.9	120.2	120.0	120.7	122.9	119.1
1973	124.5	126.9	129.8	130.5	133.2	136.0	134.3	142.1	139.7	138.7	139.2	141.8	134.7
1974	146.6	149.5	151.4	152.7	155.0	155.7	161.7	167.4	167.2	170.2	171.9	171.5	160.1
1975	171.8	171.3	170.4	172.1	173.2	173.7	175.7	176.7	177.7	178.9	178.2	178.7	174.9
1976	179.4	179.4	179.7	181.3	181.9	183.2	184.4	183.8	184.8	185.3	185.6	187.1	183.0
1977	188.1	190.2	192.0	194.3	195.2	194.5	194.8	194.6	195.3	196.3	197.1	198.2	194.2
1978	200.1	202.1	203.7	206.5	208.0	209.6	210.7	210.6	212.4	214.9	215.7	217.5	209.3
1979	220.8	224.1	226.7	230.0	232.0	233.5	236.9	238.3	242.0	245.6	247.2	249.7	235.6
1980	254.9	260.2	261.9	262.8	264.2	265.6	270.4	273.8	274.6	277.8	279.1	280.8	268.8
1981	284.8	287.6	290.3	293.4	294.1	294.8	296.2	296.4	295.7	296.1	295.5	295.8	293.4
1982	298.3	298.6	298.0	298.0	298.6	299.4	300.6	300.4	299.5				

Note: Last four months are always subject to revision.



PPI 00000000 All commodities

BASE 1967 = 100

YR	AVG	JAN	FEB	MAR	APR	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
1913	36.0	36.3	36.0	36.0	35.9	35.5	35.5	35.9	35.9	36.6	36.6	36.2	35.6
1914	35.7	35.4	35.2	35.1	34.9	34.8	34.8	34.7	35.9	36.2	35.1	34.9	34.7
1915	35.8	35.2	35.4	35.2	35.4	35.5	35.2	35.7	35.4	35.2	36.2	36.9	38.2
1916	44.1	39.7	40.4	41.5	42.1	42.5	42.8	43.0	43.9	44.9	46.9	50.2	51.2
1917	60.6	52.7	53.9	55.5	58.9	62.2	63.0	63.4	64.4	63.7	63.1	63.3	63.4
1918	67.6	64.5	63.2	65.1	66.2	66.1	66.5	68.0	69.3	71.0	70.3	70.3	70.3
1919	71.4	69.3	67.0	67.7	68.6	69.7	69.9	72.8	74.5	72.8	73.0	74.6	77.7
1920	79.6	81.3	81.1	81.8	85.6	86.2	85.9	85.6	83.2	80.1	76.6	68.8	62.2
1921	50.3	58.8	56.1	52.2	51.0	49.6	48.2	48.2	48.3	48.2	48.5	48.5	48.0
1922	49.9	47.1	48.0	47.9	48.1	49.6	49.7	51.3	50.9	51.2	51.4	51.8	51.9
1923	51.9	52.6	53.3	53.9	53.5	52.5	51.7	50.8	50.5	51.5	51.3	50.8	50.6
1924	50.5	51.4	51.5	50.8	50.1	49.5	49.0	49.3	50.0	50.0	50.6	51.1	52.6
1925	53.3	53.1	53.6	53.7	52.5	52.4	53.1	53.8	53.5	53.3	53.4	53.9	53.[illegible]
1926	51.6	53.2	52.6	51.9	51.7	51.8	51.8	51.3	51.1	51.5	51.3	50.8	50.5
1927	49.3	49.2	49.8	49.5	48.9	48.6	48.5	48.6	49.1	49.7	49.9	49.7	49.7
1928	50.0	49.7	49.5	49.3	49.9	50.3	50.0	50.2	50.3	50.9	50.0	49.5	49.5
1929	49.1	49.3	49.2	49.6	49.3	48.8	49.1	49.8	49.7	49.6	49.0	48.2	48.1
1930	44.6	47.2	47.1	46.5	46.5	45.8	44.8	43.6	43.4	43.5	42.8	41.9	41.0
1931	37.6	40.3	39.6	39.[illegible]	38.5	37.8	37.2	37.1	37.[illegible]	36.8	36.3	36.2	35.4
1932	33.6	34.8	34.2	34.0	33.8	33.3	33.0	33.3	33.6	33.7	33.3	32.9	32.3
1933	34.0	31.4	30.8	31.0	31.1	32.4	33.5	35.5	35.9	36.5	36.8	36.7	36.5
1934	38.6	37.2	37.9	38.0	37.9	38.0	38.[illegible]	38.5	39.4	40.0	39.4	39.5	39.7
1935	41.3	40.6	41.0	40.9	41.3	41.4	41.[illegible]	40.9	41.5	41.6	41.5	41.6	41.8
1936	41.7	41.6	41.6	41.0	41.1	40.5	40.[illegible]	41.5	42.0	42.0	42.0	42.5	43.4
1937	44.5	44.3	44.5	45.2	45.4	45.1	45.[illegible]	45.4	45.1	45.[illegible]	44.0	43.0	42.1
1938	40.5	41.8	41.2	41.1	40.5	40.3	40.4	40.6	40.2	40.4	40.1	40.0	39.8
1939	39.8	39.7	39.7	39.6	39.3	39.3	39.0	38.9	38.6	40.8	40.9	40.8	40.9
1940	40.5	40.9	40.6	[illegible]	40.5	40.4	40.3	40.1	40.0	40.2	40.6	41.0	41.3
1941	45.1	41.7	41.6	[illegible]	43.0	43.8	45.0	45.8	46.6	47.4	47.7	47.7	48.4
1942	50.9	49.5	49.9	[illegible]	50.9	51.0	50.9	50.9	51.1	51.5	51.6	51.7	52.0
1943	53.3	52.5	52.9	53.[illegible]	53.5	53.6	53.5	53.3	53.2	53.2	53.2	53.1	53.3
1944	53.6	53.3	53.4	53.5	53.5	53.6	53.8	53.7	53.5	53.6	53.7	53.8	54.0
1945	54.6	54.1	54.2	54.3	54.5	54.7	54.8	54.7	54.5	54.3	54.6	55.0	55.2
1946	62.3	55.2	55.5	56.2	56.8	57.2	58.2	64.4	66.5	64.0	69.2	72.1	72.7
1947	76.5	73.2	73.9	75.7	75.2	74.8	74.[illegible]	75.6	76.6	78.1	79.1	79.9	81.6
1948	82.8	82.9	81.3	81.3	82.0	82.4	8[illegible]	81.7	84.3	84.2	83.3	83.1	82.6
1949	78.7	81.6	80.3	80.1	79.3	78.6	77.9	77.8	77.9	78.0	77.7	77.7	77.6
1950	81.8	77.6	78.0	78.1	78.1	79.1	7[illegible]	81.7	83.5	85.0	85.5	86.[illegible]	89.0
1951	91.1	91.2	92.5	92.5	92.3	92.0	91.[illegible]	90.7	90.2	90.0	90.2	90.[illegible]	90.1
1952	88.6	89.7	89.3	89.2	88.7	88.6	88.2	88.7	89.1	88.7	88.2	87.8	87.0
1953	87.4	87.2	87.0	87.3	86.8	87.2	86.[illegible]	88.0	87.7	88.1	87.5	8[illegible].2	87.6
1954	87.6	88.0	87.7	87.7	88.1	88.[illegible]	87.3	87.7	87.7	87.3	87.1	[illegible].3	86.9
1955	87.8	87.4	87.7	87.3	87.7	87.2	87.6	87.7	88.0	88.7	88.6	88.2	88.3
1956	90.7	88.8	89.2	89.5	90.2	90.8	90.7	90.5	91.0	91.[illegible]	91.7	92.0	92.3
1957	93.3	92.7	92.8	92.7	93.0	92.9	93.2	93.8	94.0	93.7	93.5	93.7	94.1
1958	94.6	94.3	94.6	95.0	94.7	94.4	94.6	94.6	94.5	94.5	94.6	94.6	94.6
1959	94.8	94.8	94.9	94.9	95.2	95.2	95.0	94.8	94.5	95.0	94.5	94.3	94.3
1960	94.9	94.7	94.7	95.2	95.2	95.0	94.8	95.0	94.6	94.6	94.9	94.9	94.8
1961	94.5	95.2	95.2	95.2	94.7	94.3	93.8	94.2	94.3	94.3	94.3	94.3	94.6

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Senator **Wallop**. Thank you, Mr. Craig.

Senator Metzenbaum.

Senator **Metzenbaum**. Mr. Hall, you are the vice president for the National Forest Products Association. That represents you say the timber industry. Is that a fair statement?

Mr. **Hall**. It is the major group, national group representing the forest products industry.

Senator **Metzenbaum**. Would you say that generally speaking, that is a conservative group?

Mr. **Hall**. I would say we are a conservative group.

Senator **Metzenbaum**. Would you say that as a conservative business group, that you normally think that contracts made and entered into should be lived up to?

Mr. **Hall**. The conservative business group is also concerned with the health of its customers.

Senator **Metzenbaum**. I didn't ask you that. I am worried about the health of a lot of people in this country who have got contracts. Let's just ask you whether you think that contracts ought to be lived up to?

Mr. **Hall**. An appropriate answer requires both the answer you are seeking and the one I would like to add to it.

Senator **Metzenbaum**. First answer mine, and then you add your own.

Mr. **Hall**. Thank you, sir. The industry by and large does maintain that contracts entered into ought to be performed. Industry also recognizes there are circumstances when there are changed conditions, in this case in part due to the Government's action which demand that the contracts be looked at, and that the modifications be entered into.

Thank you for letting me add that.

Senator **Metzenbaum**. I am delighted to have you give a full answer.

I have some difficulty with the giants of the American economic system who believe in the sanctity of contracts—I came out of the business community. When I made a deal, I would live up to it. Nobody on the other side ever came to me and said sorry, old buddy, we know you are hurting, you can get out of the contract, and I have a little trouble in understanding how the bastions of conservatism, the defenders of the free enterprise system, the stalwarts of the Republican Party, are in a position to come to Congress and say hey, look, we have been saying Government ought to keep their nose out of business, but this is different. Now it is we who are being hurt. Let us off the hook, would you please?

Mr. **Hall**. In addition—I express my appreciation for your fine comments about our organization and the members—let me add that when one of the parties to the contract has the ability and exercises that ability to change the conditions under which the contract will be performed, that it is appropriate to modify that contract

Senator **Metzenbaum**. Now what did the Government do to change those conditions?

Mr. **Hall**. We would assert that in October 1979 the Government, through deliberate action, modified the money policies of the United States in order to combat inflation—an objective which we felt laudable, but the results of which resulted in a significant increase in the mortgage rates and a dried-up housing economy.

Senator **METZENBAUM**. Do you think there should be an amendment on that bill that all contracts entered into prior to 1979, regardless of whether it has to do with timber or any other subject, should become voidable at the option of either party in view of the policies which occurred at about 1979, or do we permit that because a man by the name of Reagan came into office and we increased unemployment and created some other problems in the economy?

Should we say that all contracts in this country can be voided?

Mr. **HALL**. My area of competence, if any, is limited to that of the forest products industry, and I wouldn't care to speak for anything outside of that realm.

Senator **METZENBAUM**. Let me ask you another question. Things change. Policies changed from 1979, as you stated, for 1980, 1981, and as a consequence, timber now became worth twice what the bid prices were. Now Government calls you up and says; Mr. Hall, we would like the timber industry to let the Government off the hook. You bid, some of your people bid around 300 or whatever the price was. It is now worth about 600. We would like to reopen the contracts and void them. There has been a change of conditions.

How would you react to that?

Mr. **HALL**. First of all, for many of the contracts, there is the escalation clause which Mr. Craig referred to which does provide for the Government to participate in the upward or downward movement of contracts.

The changes, some of the changes you have talked about could be recognized in that form.

Senator **METZENBAUM**. How much would that amount to?

Mr. **HALL**. Currently, the modification, the escalator clause is applied only in so-called east side timber sales, those east of the Cascades or in the pine region, and that provides that the Federal Government would capture 15 percent of upward escalation. It does not, as you might add promptly, apply to those sales entered into in the west side of the Cascades, so-called Douglas fir region. That provision is to be instituted in contracts beginning some time around July 1.

The Forest Service has been working for the last year and a half.

Senator **METZENBAUM**. The conditions we are dealing with are on the west side, aren't they?

Mr. **HALL**. The bulk of the contracts which have the excessive bidding to them would be the west side.

Senator **METZENBAUM**. So the escalation wouldn't help the Government so they came in and asked you for relief. Would you recommend that the timber companies give them relief?

Mr. **HALL**. It is unlikely that I will be appearing in support of that.

Senator **METZENBAUM**. I would guess not. If you want to hold your job I don't think that you would, and I am having great trouble about this whole concept of breaking the contract, and it just sounds to me like timber companies are coming into "Sugar Daddy," Uncle Sam, and saying look, you can afford it. What the devil? It is only $2 billion. Why don't you let us off the hook on these contracts? And I have trouble also—now I can understand if some of the people you represent are about to go bankrupt or in need of relief, but you know that in the last session of Congress when I sat at the committee here, I tried to have an amendment to make a distinction between the very strong timber companies, and the very weak ones, and some of your friends on this committee never even gave me a chance to get the amendment up and offered. They banged the bill out of committee and all I could do was fight the whole proposition.

Now it is my understanding that the administration is opposed to this bill and that they, too, think you might have some bill that had to do with small companies who were threatened with bankruptcy or with economic real hardship.

Would you think that the Committee, if it isn't prepared to put the bill out in its present form, should consider legislation along that line of an amendment along that line?

Mr. HALL. You asked several questions.

Senator METZENBAUM. The main one is do you think that the committee ought to consider an amendment that would take care of small timber companies who are suffering economic distress and might be threatened with bankruptcy?

Mr. HALL. As we get to that, let me respond to one of your earlier notations about the major companies seeking the solution recommended in 916.

We also note from the earlier testimony that Government officials, both State and local, as well as the building community and labor, have sought the solution recommended on 916 as the equitable way out of a very confused and partially inequitable situation.

Senator METZENBAUM. I don't see how that—you are saying that Government, that labor and——

Mr. HALL. I am saying that labor, organized labor, and the homebuilding industry, as well as the building materials supply industry, local county government and State government, have all recommended that some type of legislative action be undertaken.

Senator METZENBAUM. That doesn't impress me very much. I am more interested in what the right thing to do is, not the labor and local officials.

Mr. HALL. It indicates merely a support larger than that of the major corporations for the solution such as in S. 916.

Senator METZENBAUM. I find labor can be prevailed upon to do things that they shouldn't do on the thought it is going to create or keep jobs, but the big companies aren't going to go bankrupt if they meet their obligations under these contracts.

Mr. HALL. The big companies may close down some of their smaller operations one way or another. At any rate, the Government as far as I know, the administration has not yet recommended a solution that applies to one class of purchasers only.

Senator METZENBAUM. They are opposed to the bill.

Mr. HALL. The administration is opposed to the provision of S. 916. It has recommended at least in draft form or in some of the statements and earlier testimony of Assistant Secretary Crowell that a solution referred to as a buyout concept be adopted. That is one we find that is inadequate to deal with the situation, and we can address that later.

Senator METZENBAUM. So do I.

Mr. **Hall**. The administration has not, as far as I know, recommended a solution applicable to one category only.

Senator **Metzenbaum**. I am asking whether you would.

Mr. **Hall**. We also would not support that type of recommendation, believing that there are just too many inherent difficulties from trying to administer a solution or an answer to an individual company's needs. Each company has got a unique situation as a result of the timber it has under contract—when it offered to buy it, at what price, and when that contract terminates, plus whatever private timber can mix in.

Second, we would suggest that all companies ought to be treated equitably by the Federal Government and not set up one category versus another.

Senator **Metzenbaum**. Mr. Hall, you are one of the strong advocates of balancing the budget, and you are asking us to give $2 billion in relief, and you are asking us to give it to some of the companies that are doing unbelievably well at the moment.

I have before me the Wall Street Journal—three forest firms post higher profits. Boise Cascade said their net nearly doubled to 11.1 million while sales rose 8 percent to 771 million. Crown Zellerbach's net jumped 264 percent. Sales fell 15 percent in the first period.

I have here another chart from the New York Times, May 9, 1983. Boise Cascade Corp., up a hundred percent for the first quarter over 1982—100 percent. Champion International, they did pretty well, not a bad increase, up 1,238 percent. That is not bad under anybody's chart, and we are not talking about peanuts. We are talking about very important dollars—Crown Zellerbach, up 264 percent.

Now how can you in good conscience other than the fact that you are a trade association executive, how can you in good conscience really come before this committee? Don't you have a sense of embarrassment in asking us to have a welfare fund bill for the timber industry in view of these profits? There are companies out there in the country who are literally fighting for their economic existence. They are going bankrupt, and these companies are doing unbelievably well, and you are asking us to put them on the welfare list, to let them out of a contract.

What is the difference in giving them $2 billion cash in a dole, and leaving them out of a contract that would require them to pay the Government about $2 billion?

Mr. **Hall**. First of all, we believe that rather than being a budget buster, a net drain on the budget, that this solution will have a net beneficial impact. We will assure that the timber gets back into commerce more quickly, and it helps to meet the objectives of the Federal Government not only as a timber administrator, land owner, but also as an interested party in the reduction of unemployment, in the production of goods in the country.

Second, I don't have the base from which you asserted the increases, the percentage increases in profit and sales, but as you recognize, it has gone from 2- to 4- to 100-percent increase, and going from zero to anything is almost an infinitesimal amount.

Senator **Metzenbaum**. I understand that full well. Let me tell you what the figures are. For Boise Cascade, it is 11,130,000 for the first quarter. For Champion International it is 8,256,000, and for Crown Zellerbach, it is 20,400,000, so we are not talking about going from——

Mr. HALL. I don't have the comparable figures for previous years, but I would suggest that other than the last 3 years in which we have been at the low point of our recent history, that those are fairly low figures for corporate income. I am certain that the shareholders believe they are lower figures.

Senator METZENBAUM. Some of the companies in their annual reports have told their stockholders don't worry about this kind of a problem, that these contracts, we can handle whatever the obligation is. I can quote you that language if you want me to, but that is what they are telling their stockholders. They are telling the Members of the Congress a different kind of story. They are saying it is desperately needed.

Under this bill you would be able to go back and rebid the same product for a lesser number of dollars, wouldn't you?

Mr. HALL. The timber would come back into the market at a current value. The companies would have an opportunity to purchase it at that, and to manufacture, to provide the jobs, the local economic stimulus, and the products needed for the resurgence in housing which we anticipate.

Senator METZENBAUM. Let me change the subject. Incidentally, according to all reports, including the national TV, the timber industry has never done any better. They are running at full capacity. I don't know if that is true or not. I believe everything I see on TV.

Senator WALLOP. Don't believe that one.

Senator METZENBAUM. They showed a picture of a plant and how well they were doing, et cetera.

Mr. HALL. That particular plant might be doing quite well.

Senator METZENBAUM. What company was it?

Mr. HALL. I don't recall, but any company running at full blast is deserving of television coverage.

Senator METZENBAUM. Let me ask another question. There is a lot in this bill about going back and revitalizing, providing new life to road credits. It is a born-again road credit that you are providing for in this bill. Tell me about that born-again road credit, why it should be in the bill and what logic there is for taking these road credits and putting that into this legislation, where does that come from?

Mr. HALL. The issue has to deal, of course, with the way the Federal Government pays for the construction of roads needed for national forest operation.

Under the current contract provisions, a purchaser bids for the timber as if the road were in place, and he undertakes an obligation not only to harvest the timber in the prescribed manner and to pay for it, but also to construct the required road to the standards and specifications set forth by the Forest Service in the contract.

Let's take a hypothetical example. If the timber is valued at $100 standing, as if the road were in place, the Forest Service puts it up for bid at $100. The Forest Service engineers also estimate that it is going to cost about $40 for each thousand board feet to construct the necessary roads to harvest that timber, a road which serves not only that timber sale but also other management purposes for the Forest Service, the life expectancy of the road.

In completion of the contract, the purchaser would build the road and would have added to his timber sale account $40 which he may then use to purchase, to pay for the timber that he is removing. He ends up paying the Forest Service $60 in cash and $40 in work performed for the road. For that, he receives $100 worth of timber which he takes out. That is the sale. It is paid for. That is the so-called purchaser credit provision that is in existence, has been for almost 20 years, as the way the Federal Government finances a portion of the roads necessary for national forest management, particularly those roads attendant to individual timber sales.

That amount of credit, the $40, is in the nuances of the contract referred to as effective purchaser credit. It is an amount which when earned is effective in the case of the value of the timber. There are some areas of the country and some contracts within the entire United States which result in a fact or figure called ineffective purchaser credit. That would occur when the development costs for a particular timber sale area exceed the sum of Forest Service base rates and the anticipated construction costs of the road.

If you will permit another hypothetical example, let's move over into the intermountain area—Idaho, Wyoming, Montana, some of those areas, where there may be lower value timber worth on the average $40 a thousand board feet, a road cost of $35, and a Forest Service base rate of $10, base rate meaning the amount that the Forest Service would like to have in cash so that it can handle some of its other obligations, so that the combination of base rate, $10, plus the road construction cost of $35 exceeds by $5 the estimated value of the standing timber.

If a purchaser were to offer the Forest Service the appraised rate of $40 per thousand board feet for that timber, he would in essence be overbidding by five. You are getting an anticipated $40 value for which he must pay $45. There are purchasers who in some circumstances do that. That $5, or 5 out of 35 which would normally be effective purchaser credit, the $5 is called ineffective purchaser credit. He does the work, but does not have an effect in dealing with his timber sale account. Some purchasers may elect to bid $45 for their timber. It doesn't cost them a nickel more because they are paid $35 still in road construction costs and $10 in cash. It looks like a $5 overbid, but as far as the company books are concerned, it costs the same.

At any rate, that makes the $5 effective. It doesn't change it.

Senator METZENBAUM. I understand that. Now the Chairman is telling me I ought to let you go soon, but I want to know why you are trying to revise these ineffective road credits that have been there for years. You tried to do it under Jerry Ford and he wouldn't let you do it. Nobody, no President has let you do it. Why are you trying to do it now?

Mr. HALL. OK. The forest products industry was not unanimous as to how to deal with this issue back in the earlier stages. At this time, we are unanimous, virtually unanimous in support of the concept of the Federal Government ought to pay a fair amount for the work that is performed as a result of the Forest Service contract, and that there ought to be recognition of that additional $5.

Senator METZENBAUM. They know what they bid, don't they? They know that there is going to be a certain amount of ineffective road. They know that.

Mr. HALL. The purchaser is aware of that. That is one of the reasons why, as I mentioned just a moment ago, some bid up that amount so it becomes an effective amount which is a little better under some circumstances.

At any rate, the Federal timber purchaser is not operating in a generally free market as far as the purchase of his raw materials is concerned. It is a coerced market, one in which he must deal and must suffer that additional $5 per thousand penalty for dealing in that market.

Senator METZENBAUM. Isn't that—he can walk away from the bid.

Mr. HALL. He does not need to bid. However, if he intends to stay in business as a manufacturer of lumber and other wood products in many parts of the West he has no alternative source of supply.

Senator METZENBAUM. He is bidding right now when he has got contracts he is not even willing to live up to, and he is going back and rebidding, and as you know, you were criticized at the previous hearing for doing that, and you said, you bring in a newspaper clipping how they are not doing that any more in April, and they are not doing it any more in April because they got hell for doing it in March and they decided as an industry group they better not do that. It looks bad. Cool it a little bit until Congress gets through with this bill, but that's all that really happened.

You read the newspaper article. It is clear that in March they were doing this, and in April they quit doing it after their congressional supporters questioned them about it.

Mr. HALL. I don't think that is a sound analysis.

Senator METZENBAUM. Not too bad.

Mr. HALL. It has an air of logic to it, but let's carry it to its logical extreme. The assertions made by Senators at the previous sessions dealt with what were aberrations, unusually high, and certainly not on the average bid.

The newspaper article reflects the average bid throughout the month of April. I suggest it reflects a more accurate reading.

Senator METZENBAUM. One last question—how much are the born-again credits worth to the industry if we pass this legislation?

Mr. HALL. I don't know what the total volume is.

Senator METZENBAUM. Give me a guess.

Mr. HALL. I don't have that.

Senator METZENBAUM. 50 million? A 100 million? 5 million?

Mr. HALL. There are two aspects to this one. The bill would apply to existing contracts as well as to future contracts.

Senator METZENBAUM. How much is out there now on these, what do you call them, ineffective credits? How much is out there? You must have some idea. It can't be just a big secret. Somebody must have some idea that there is a certain amount.

Mr. HALL. We must have. I am just drawing a blank as to what it is.

Senator **Metzenbaum**. How about this gentleman, the consultant: How much would you say?

Mr. **Craig**. Well, what I mentioned to John was, Senator, it changes with the market because although John indicated that these escalated contracts are, I thought he indicated they were more limited use than they are—they are in use in California, Montana, Idaho, eastern Oregon, and Washington, all of the Southwest, and that means that stumpage rates go up and go down with changes in the lumber market, and that means that the price that is available to user purchaser credits will go up and down.

Senator **Metzenbaum**. Mr. Craig, there is a certain amount of these ineffective road credits that today aren't worth a tinker's damn unless Congress passes this legislation.

How much is out there—my last question, as soon as he answers it for me?

Mr. **Craig**. I'm sorry. I don't know, but again the fact is that the amount will change with the market. The amount that is out there changes from month to month.

Senator **Metzenbaum**. How could it change? You bid, somebody bid 5 years ago an extra $5.

Mr. **Craig**. The reason why is that what is ineffective depends upon what has to be paid, and if the market goes up and the value of the timber goes up, more of the purchaser credit can be applied to meet the cost.

Senator **Metzenbaum**. But these are contracts that--how far back do they, ineffective road credits, go? Twenty years?

Mr. **Craig**. It will not apply to any contract that is not alive, and those contracts would have to have timber to be paid for yet.

Mr. **Hall**. The point being here, sir, that the bulk of the contracts involving deficit sale, the deficit road credit, are in the pine or the east side contracts which do include that escalator clause, so as the market varies, the price to be paid goes up or down.

I would be glad to obtain, if I can, before the end of today's hearing and provide to you an estimate of that amount, certainly within the next day, for the hearing record.

Senator **Metzenbaum**. I would appreciate your doing that, and Mr. Chairman, before we go to mark-up on this bill I would hope the Forest Service would provide us with their analysis as to what is involved dollarwise in 916 with respect to the ineffective road credits at the present time.

Thank you.

Senator **Wallop**. I will just say to my friend from Ohio and the witnesses at the table, don't you get too worked up about his statements about contracts being lived up to that were entered into. I guess it all depends upon whether you are in natural gas or timber.

Senator **Metzenbaum**. I thought about that, those take or pay contracts. I sat in this hearing room——

Senator **Wallop**. The Senator's position with regard to his bill on natural gas is that one side of the contract forever can get out of it and the other side of the contract forever must live up to it, and so it all depends apparently on which ox is being gored at the moment.

Senator **Metzenbaum**. You questioned the matter of getting out of those, one side getting out, and now you are advocating one side getting out.

Senator **Wallop**. I am not advocating a damn thing. I am holding a hearing here. I would say that lest anybody in the audience also have the opinion that this bill is sponsored solely by red-necked conservatives, unless you would be interested in holding your friends Senator Jackson or Senator Cranston or Senator Sasser or Matsunaga as red-necked conservatives.

Senator **Metzenbaum**. I didn't say they were red-necked conservatives. I said that there is a contradiction for conservatives to come before the Congress and ask to be relieved from the obligation of a contract.

Senator **Wallop**. There is a contradiction for liberals to challenge that.

Senator **Metzenbaum**. Liberals do that all the time.

Senator **Wallop**. The truth that I know has been known to be the case is finally admitted as the case

At any rate, I appreciate your being here, and I am going to change the order of the panelists because Mr. Gates has an airplane to catch, and so we will ask panel No. 3—Mr. George Cheek who is senior vice president, public affairs, Potlatch Corp., San Francisco; Mr. Paul Heyrend, president, Small Sawmill Owners Association and Heyrend Lumber Co., Artois, Calif.; and Mr. Robert Gates, forester, Sierra Timber Products, Gardnerville, Nev., and Mr. Cheek, we will begin with you.

STATEMENT OF GEORGE C. CHEEK, SENIOR VICE PRESIDENT, PUBLIC AFFAIRS, POTLATCH CORP.

Mr. **Cheek**. Mr. Chairman, Senator Metzenbaum, we appreciate the opportunity to testify today. My name is George Cheek. I am a senior vice president of the Potlatch Corp. We own timber lands in three States, but we also buy substantial quantities of timber from other ownerships, including the Federal Government.

We believe that S. 916 and S. 848 as written would provide competitive advantages to a few forest products companies at the expense of the large majority.

We also believe it is not in the interest of the Federal Government to provide massive financial relief without a showing of need.

With those who support S. 916 we do agree on three things—first, that there is more timber under contract in parts of the West than the market can currently absorb; and second, that much of that timber would have to be operated at a loss if cut today.

We also accept the possibility that some contractors would face severe financial difficulties if they are required to fulfill all of the contracts they have entered into.

Beyond those three areas, there are few facts on which firm conclusions can be based, and the proponents of this legislation are asking the Congress to make some assumptions that we believe are not justified. The first is that a high percentage of defaults will occur.

Second is that the defaults will cause a wave of bankruptcy, and third, that passage of this proposal will not upset the competitive balance among financially healthy companies.

Estimating potential defaults is difficult because no dependable figures are available. The Forest Service has estimated that contracts representing 16.6 billion board feet are inoperable, and industry proponents of termination have estimated the total at 10 billion.

The Forest Service has estimated that 8.7 billion of its total will be defaulted, and that is from 52 percent to 87 percent, depending on which base you accept, Forest Service or industry. We believe all of these figures are guesswork.

Ten companies hold 37 percent of the volume estimated by industry to be inoperable. Seven of these contractors are publicly owned, with net worth in the billions of dollars. None of the annual reports issued by the public companies hint at default. If the volume held by these companies—I beg your pardon. If the volume held by the companies that are publicly opposed to termination, including my own company, is added to the total, then the volume where default is highly unlikely grows to 42 percent.

It is impossible to believe that all of the other contractors would default on all sales that are even marginally more expensive than market prices on a given day.

Now the Forest Service estimated earlier this year that defaults on March 31 in region 5 would total 101 million board feet. The actual total was 3 million. The miscalculation was over 97 percent, so we do believe that the skepticism about these estimates is justified.

Now if defaults are minimal, the fear of numerous bankruptcies also would seem to be exaggerated. However, if bankruptcies are a possibility, we would have no objection to Federal relief so long as it is provided under conditions similar to those demanded of Lockheed and Chrysler. Now the absence of any requirement for a showing of hardship is particularly unusual in such a bill when needs tests are included in virtually every other Federal assistance program, including welfare, medicaid, food stamps, veterans' pensions, and now for the first time, guaranteed student loans and even social security.

In terms of competitive balance, the relief measures already implemented allowed mills on the Pacific Coast to operate at consistently higher rates than inland mills over the last 3 years. They also allowed these mills to increase their share of the market for lumber in Southern States during a period of inelastic demand. It is obvious that a sweeping reduction in raw material costs for one small geographic area would be beneficial to that region and detrimental to the others.

Witnesses last year said that Potlatch was opposed to this bill because its passage would reduce the value of the timber on our own land. That is part of the reason, but I see nothing wrong with an investor objecting to Government action that would cheapen his property to the benefit of his competitors.

Now Potlatch is only one owner, however. There are 48,000 other owners, mostly individuals, in a nationwide industry-sponsored tree farm program whose holdings total 83 million acres compared to our 1.4 million. For more than a decade the industry has been urging these owners to increase their rate of investment in timber management, and those investments have been made. Now if Potlatch has reason to object to this bill, so do they.

Incidentally, there are 1,412 tree farmers in the State of Ohio, Senator.

In summary, we believe that S. 916 in its present form would be of benefit to a small number of companies in one operating region, to the detriment of all others in the forest products industry in that region and elsewhere, and we hope this committee will agree.

Thank you.

[The prepared statement of Mr. Cheek follows:]

Testimony of: George C. Cheek
Senior Vice President, Public Affairs
Potlatch Corporation

Before the
Subcommittee on Public Lands and Reserved Water
Committee on Energy and Natural Resources

United States Senate

May 9, 1983

My name is George Cheek. I am a senior vice president of Potlatch Corporation, an integrated forest products manufacturer headquartered in San Francisco. Our principal operations are in Idaho, Minnesota and Arkansas. We own timberlands in each of these states but also buy substantial quantities of timber from other ownerships, including the federal government.

We believe S.916 and S.848, as written, would provide competitive advantages to a few forest products companies at the expense of the large majority, and we oppose it. We also believe it is not in the interest of the federal government to provide massive financial relief without a showing of need.

With those who support S.916, we agree on three things. First, that there is more timber under contract in parts of the West than the market can currently absorb and, second, that much of that timber would have to be operated at a loss if cut today. We also accept the possibility that some contractors could face severe financial difficulties if they are required to fulfill all of the contracts they have entered into.

Beyond those three areas, there are few facts on which firm conclusions can be based, and the proponents of this legislation are asking the Congress to make some assumptions we believe are not justified. The first is that a high percentage of defaults will occur. Second is that the defaults will cause a wave of bankruptcies. And, third, that passage of this proposal will not upset the competitive balance among financially healthy companies.

Estimating potential defaults is difficult, because no dependable figures are available. The Forest Service has estimated that contracts representing 16.6 billion board feet are inoperable, and industry proponents of termination have estimated the total at 10 billion. Part of the reason for the uncertainty is that more timber becomes theoretically operable every day, as prices go up. The short periods remaining on some contracts make some of these sales inoperable from a practical standpoint, however.

So the volume of inoperable sales is in dispute.

The Forest Service has estimated that 8.7 billion of its total will be defaulted -- from 52 percent to 87 percent, depending on which base you accept, Forest Service or industry. We believe all of these figures are guesswork.

Ten companies hold 37 percent of the volume estimated by industry to be inoperable. Seven of these contractors are publicly owned, with net worths in the billions. The privately held companies are large and well financed, by definition. None of the annual reports issued by the public companies hints at default, and the possibility must be remote. If the volume held by companies publicly opposed to termination -- including my own -- is added to that total, the volume where default is highly unlikely grows to 42 percent. It is impossible to believe that all of the other contractors would default on all sales that are even marginally more expensive than market prices on a given day.

So the potential default volume also is in dispute.

The Forest Service estimated earlier this year that defaults on March 31 in Region 5 would total 101 million board feet. The actual total was 3 million, a miscalculation of over 97 percent.

We believe that skepticism about these estimates is justified.

If defaults are minimal, the fear of numerous bankruptcies also would seem exaggerated. However, if bankruptcies are a possibility, we would have no objection to federal relief, so long as it was provided under conditions similar to those demanded of Lockheed and Chrysler.

The absence of any requirement for a showing of hardship is particularly unusual in such a bill, when needs tests are included in virtually every other federal assistance program -- including welfare, medicaid, food stamps, veterans' pensions and, now for the first time, guaranteed student loans and even Social Security. The President has said that these stricter means tests are necessary so that the government can target scarce resources to people who most need help.

In terms of competitive balance, the relief measures already implemented allowed mills on the Pacific Coast to operate at consistently higher rates than inland mills over the last three years. They also allowed these mills to increase their share of the market for lumber in southern states during a period of inelastic demand. It is obvious that a sweeping reduction in raw material costs for one small geographic region would be beneficial to that region -- and detrimental to others.

Witnesses last year said Potlatch was opposed to this bill because its passage would reduce the value of timber on our own lands. That is part of the reason, but I see nothing wrong with an investor objecting to government action that would cheapen his property for the benefit of his competitor.

Potlatch is only one owner, however. There are 48,000 other owners, mostly individuals, in a nationwide, industry sponsored tree farm program, whose holdings total 83 million acres, compared to our 1.4 million. For more than a decade, the industry has been urging these owners to increase their rate of investment in timber management, and those investments have been made. If Potlatch has reason to object to this bill, so do they.

Incidentally, there are 1,412 tree farmers in the state of Ohio.

In summary, we believe that S. 916 in its present form would be of benefit to a small number of companies in one operating region, to the detriment of all others in the forest products industry, in that region and elsewhere.

We hope this Committee will agree.

* * * * *

Senator METZENBAUM [presiding]. Thank you very much, Mr. Cheek. Let me hear the other witnesses—Mr. Heyrend, president, Small Sawmill Owners Association and the Heyrend Lumber Co. of Artois, Calif. I am not sure I pronounced the name of the city right.

STATEMENT OF PAUL W. HEYREND, PRESIDENT, SMALL SAWMILL OWNERS ASSOCIATION AND HEYREND LUMBER CO.

Mr. HEYREND. Thank you, Mr. Chairman. I am Paul Heyrend, president of the Small Sawmill Owners Association located in Chico, Calif. I also own and operate a small sawmill in Artois, Calif.

Our association is opposed to the contract relief bills. In the past several years many of our members were second or third bidder on Government timber sales. Many curtailed production, and at times shut down completely because they could not get timber. These bills would help the successful bidders whether they need help or not, but most of the help would go to the large companies.

In region 5 where we operate there is approximately 5 billion board feet of timber under contract as of December of last year. Six companies have control of 70 percent of this timber. In addition, the excessive bidding that created the present situation is still going on, and I would like to submit 11 copies of Forest Service sale reports in region 5 that shows overbids on sales made in the first 4 months of this year by the same companies that already control the largest volume of timber in this region.

The only way to make a profit on these sales is to hold them and hope that the market improves. They were made on speculation. I am not against speculation, but the speculators should be willing to take the bitter with the sweet. These bills would eliminate any risk for the speculator.

This drive for termination already has had one damaging effect. The timber base in region 5 is virtually locked up. On the Lassen National Forest, 70 percent of the timberland is under contract. If more extensions and adjustments are given there soon will be no sales to offer. Companies with timber contracts should perform or be in default. They have prevented others from obtaining raw material for long enough.

We also feel that current Forest Service regulations on timber sales should be improved to reduce the problem of speculative bidding and timber hoarding. My statement includes several suggestions, but I will mention just one. Mill deck scaling is a practice that is available now to most of the companies asking for termination that already gives them an advantage over us.

Under this procedure, a contractor pays one quarter of 1 percent of the value of the sale before harvest. The timber is then logged, hauled to a storage location, and left sometimes for as long as 3 years. Payment is made as the timber is processed, but the price paid is established at the date of harvest, not processing. In other words, a buyer has control of a Federal asset for a tiny price and can choose the most profitable moment to complete the sale.

The Forest Service has no control over when it gets paid. While this system is obviously unfair to the Government it also creates a decidedly unfair competitive situation because only a few mills are allowed to do it. The Forest Service announced that the procedure would be phased out so no new client could get this kind of benefit. At the same time, those who have it continue to enjoy it. We believe the practice should be stopped.

In conclusion, I would like to emphasize our opposition to any contract relief. Let the credibility of contracts with the Forest Service stand or who will have faith in the system at all?

Thank you.

[The prepared statement of Mr. Heyrend follows:]

Testimony of: Paul W. Heyrend
President
Small Sawmill Owners Association

Before the
Subcommittee on Public Lands and Reserved Water, Committee
on Energy and Natural Resources

United States Senate

May 9, 1983

I am Paul Heyrend, President of the Small Sawmill Owners Association located in Chico, California. I also own and operate a small sawmill in Artois, California.

Our Association is opposed to the contract relief bill S. 916. Our members were very prudent in the past several years in their purchase of timber for their sawmills. In many cases they were second or third bidders on Government Timber Sales. Many members curtailed production and at times shut down completely.

Senate Bill S. 916 will help some large and small companies whether they need help or not. But S. 916 will mostly help the large companies in Region 5 of the U.S. Forest Service. In Region 5, there is approximately 5 billion board feet of timber under contract as of December 1982. Six companies have control of 3.2 billion board feet of the 5 billion board feet.

I would like to submit eleven (11) copies of the 2490 Forest Report of Timber Sales from various U.S. Forest Service Forests in Region 5 which shows the overbid on various timber sales from

January 1983 through April 1983 by these same companies who control the largest volume of Forest Service Timber in Region 5. The only way to make a profit on these sales is to hold them until the market rises substantially, in other words, speculate. I am not against speculation, but it has to be a two way street -- take the bitter with the sweet.

I would also like to point out that the timber base in Region 5 of the Forest Service is being locked up with long term timber sale contracts and contract term adjustments. The Lassen National Forest already has 70% of its timberland under contract. If more extension and adjustments are given, pretty soon there will be no areas to sell future timber sales out of. We believe in the free enterprise system and the process of supply and demand. These companies with timber contracts should perform on their contracts or be in default.

We feel the current Forest Service regulations in the west on bidding and purchase of timber sales, should be improved to alleviate the problems of speculative bidding, timber hoarding, and other unwise overbidding practices. We suggest the following ideas for future rules and procedures to be adopted to help solve these problems:

I. All timber sales to be sealed bid.

II. No timber sale to contain over 5 million board feet in one contract.

III. Maximum time of two years on timber contract.

IV. All road construction on timber sales should be on a separate contract.

V. More tree measured sales.

VI. Mill deck scaling already is a bailout for the few companies who have it. Under this procedure a contractor pays one quarter of one percent of the value of the sale before harvest. The timber is then logged, hauled to a storage location and left, sometimes for as long as three years. Payment is made as the timber is processed -- but the price paid is established by the date of harvest, not processing. In other words, a contractor has control of a federal asset for a tiny price, and can choose the most profitable moment to complete the sale. The Forest Service has no control over when it gets paid.

While this system is obviously unfair to the government, it also creates a decidedly unfair competitive situation because only a few mills are allowed to do it. The Forest Service announced that the procedure will be phased out, so no new clients get this kind of service. At the same time, those who have it continue to enjoy it.

In conclusion, we would like to state we are in opposition to any contract relief. Let the credibility of contracts with the Federal Service stand or who will have faith in the system at all?

2400-17

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2430)

REGION 0 5
STATE 0 6
ACRES IN SALE 564
FOREST Shasta- 1 8
COUNTY Trinity 1 0 3
DISTRICT (OR AREA) 5 1
SALE NUMBER 0 1 9
SALE NAME Rat Trap
LEGAL DESCRIPTION T27N R9&10W, T28N R10W
QTR.-CY QTR. YEAR
COMPARTMENT
BID DATE 03/ 10/ 83/
SALVAGE N
CONT. NO. 050984
STATUS 1
PRICING METHOD 3
CONTRACT FORM 2400- 6
SBA SET-ASIDE N
PLAN'D SAS COL. $ 469,755
CONTRACTING OFFICER S
APP. BASE PERIOD 4 -8 2
TERM. DATE 03/ 31/ 87/
METHOD OF SALE A
ZONE 1
CONTRACT DATE / / /
REG. MCFR301 6

SPECIES	SPEC. CODE 14-16	PROD. UNIT 17-18	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $ 19-24	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP/JP	150	1-1	930	22.53	200.31	210.00	116.28	107.16	47.40	22.53							
SP/WWP	117	1-1	1300	22.53	200.31	210.00	116.28	107.16	47.40	22.53							
WF/RF	025	1-1	3490	22.53	39.51	49.20	116.28	107.16	47.40	22.53							
DF	205	1-1	10915	22.53	110.31	120.00	116.28	107.16	47.40	22.53							
IC	081	1-1	265	22.53	51.42	61.11	116.28	107.16	47.40	22.53							
TOTAL/AVER.		1-1	16,900	22.53	106.64	116.33											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Diamond International	L		$1,966,000.00
2	Roseburg Lumber Company	L		1,965,000.00
3	Sierra Pacific	L		1,811,000.00
4	Nevada Skylines	S		801,000.00
5	Louisiana Pacific	L		380,757.00
6				
7				
8				
9				
10				
11				
12				

DISTRIBUTION: Orig. and 1cc to RO (orig. to FO), 1cc to RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature James G. Burnaugh
TITLE Supervisory Resource Specialist
DATE 3/18/83

REMARKS

	PP	SP	WF	DF
1.	6.52	3.07	1.64	7.91
2.	7.15	6.86	7.64	14.49
3.	11.58	9.17	59.81	30.40
4.	-	-	30.91	47.20
5.	74.75	80.90	-	-

Award withheld pending EEO Compliance Review.
Actual Bid Value = $1,966,002.15

2400-17 (5/73)

APPRAISAL SUMMARY

SALE NAME Rat Trap | SUMMARY CHECKED BY | DATE

CARD TYPE 5

SPECIFIED RD. CONST. (Miles) 2.2 RECONSTRUCTION (Miles) 2.4 PURCH. CR. LIM. $ = 161624

PRODUCT: 01 APPRAISED TO: Anderson HAUL MILES: 72 TEMP. RD. CONST. (Miles) = 1.2 TEMP. RD. COST $ = - - - 719

BASIC DATA PERIOD: CY 1981 ADJ. TO (APPR. BASE PERIOD) 4th Qtr.1982

		CARD TYPE 6							UNIT OF MEASURE
1. Product/Unit	16-18	1-1	1-1	1-1	1-1	1-1			1
2. Species		PP/JP	SP/WWP	WF/RF	DF	IC			TOTAL OR AVERAGE
3. Species Code	10-18	150	117	025	205	081			
4. % By Species		5.50%	7.69%	20.65%	64.59%	1.57 %	%	%	T 100.0%
5. Volume		930	1,300	3,490	10,915	265			T 16,900
6. Selling Value (L.T.) [illegible]		339.72	357.28	143.60	208.25	214.04			A 213.69
7.									
8. Over-run % factor		0.9874	1.02735	1.22409	1.20729	1.12900			
9. Chip & bark value		21.14	21.14	21.14	21.14	21.14			
10. SELLING VALUE L.S.		356.58	388.19	196.92	272.56	262.79			A 270.30
11. Falling and Bucking									A 12.67
12. Skidding and Landing									A 56.85
13.									
14. SUBTOTAL, stump-to-truck									69.52
15. Haul			(Stand-by = $6.31/MBF)						A 62.86
16. Road maintenance									A 12.93
17. SUBTOTAL, transportation									75.79
18. General logging overhead									A 6.69
19. Third Party Scaling									2.04
20. SUBTOTAL, administrative									26.69
21. Slash disposal									A 0.35
22. Erosion control									A 0.41
23. Snag disposal									A 0.00
24. R.D.115 - Required Deposit									0.85
25. SUBTOTAL, Environ, Protection									1.61
26. Temporary roads									A 0.04
27. Other temporary developments									A 0.00
28. SUBTOTAL temporary development									0.04
29. SUBTOTAL, logging costs		173.65	173.65	173.65	173.65	173.65			A 173.65
30. Specified road costs (A10)									A 9.69
31. TOTAL LOGGING COST L.S.									A 183.34
32. Mfg. cost L.T.		151.26	158.41	117.57	109.87	112.58			A 117.51
33. Chip, Bark, &yield tax *		22.34	19.76	10.96	16.42	14.07			15.83
34. MFG. COST L.S.		171.50	182.50	154.88	149.06	141.17			A 153.95
35. TOTAL PRODUCTION COST L.S.		354.84	365.84	338.22	332.40	324.51			A 337.29
36. CONVERSION (10)-(35)		1.74	22.35	(-141.30)	(-59.84)	(-61.72)			A -66.98
37. P&R ratio % Normal Advertised		11	11	10	10	12			N10.16 | Adv-36.3
38. P&R margin Normal Advertised		34.38	37.51	17.02	23.90	27.12			N24.35 | Adv-89.5
39. Indicated Net Stumpage (36)-(38)		(-32.64)	(-15.16)	(-158.32)	(-83.74)	(-88.84)			A(-91.13)
40. Indicated Advertised rates (39)+(30)		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			T(-1,376,403.70
		(-22.95)	(-5.47)	(-148.63)	(-74.05)	(-79.15)			A(-81.44)
41. Base rates		22.53	22.53	22.53	22.53	22.53			A 22.53
42. Adjustments to Base Rates		45.48	28.00	171.16	96.58	101.68			A 103.97
43. Advertised rates (40)+(42)		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			T380,757.00
		22.53	22.53	22.53	22.53	22.53			A 22.53
44. Indicated stat. net rates (43)-(30)		12.84	12.84	12.84	12.84	12.84			A 12.84
45. Appraised net rates*		22.53	22.53	22.53	22.53	22.53			A 22.53
46. Base indices		294.89	400.09	164.31	169.84	xx			
*Yield Tax		15.86	13.48	4.68	10.1[illegible]	7.79			

*Adjusted if needed to not lo[illegible] base rate (line 41), using the line 42 procedure.

Note: Lines 39, 40, 43-45 include planned SAB collections as authorized by 46 Stat. 527; 16 U.S.C. 576.

-V- Forced to Base due to Deficit

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(Reference FSM 2400, Report FS-2400-A)

REGION 0 5
STATE 0 6
ACRES IN SALE 1,644
FOREST Mendocino 0 8
COUNTY 0 2 1
DISTRICT (OR AREA) 5 3
SALE NAME Spanish Ridge II
LEGAL DESCRIPTION T.21N., R.9W., M.D.B.&M.
SALE NUMBER 0 0 7
QTR./FY 2 – 8 3
COMPARTMENT
BID DATE 02 / 07 / 83
SALVAGE N
CONT. NO. 050739
STATUS 1
PRICING METHOD 3
CONTRACT FORM 2400 6
SBA SET-ASIDE N
PLANT'S SAW COL. $ 79,262
CONTRACTING OFFICER S
APP. BASE PERIOD 3 – 8 2
TERM. DATE 03 / 31 / 85
METHOD OF SALE A
ZONE 3
CONTRACT DATE 02 / 07 / 83
REG. SECTION 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP&JP	122	1-1	2,380	10.00	10.00	10.00											
SP	117	1-1	950	10.00	10.00	10.00											
WF-RF	015	1-1	3,850	10.00	41.44	95.15											
DF	205	1-1	740	10.00	10.00	10.02											
IC	081	1-1	630	10.00	46.23	99.94											
TOTAL/AVER.		1-1	8,550	10.00	26.83	54.97	54.85	53.68	10.88								

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Roseburg Lumber Co.	L		470,000.00
2	Louisiana-Pacific Corporation	L		469,000.00
3	Siller Bros., Inc.	S		459,000.00
4	Crane Mills	S		93,000.00
5				
6				
7				
8				
9				
10				
11				
12				

SIGNATURE Cynthia James
TITLE Resource Specialist
DATE 2/8/83
REMARKS

Percent by Grades

	1	2	3	4	5
PP	4.84	16.40	18.20	0	60.56
SP	7.63	16.58	22.98	.48	52.34
WF	7.18	20.59	70.04	2.20	0.00
DF	0.00	19.86	26.82	53.31	xx

08 - Mendocino

APPRAISAL SUMMARY

Coast Range

SALE NAME Spanish Ridge II

SUMMARY CHECKED BY Varner

DATE 12/13/82

CARD TYPE 5

SPECIFIED RD. CONST. (MBM) 3.8

PRODUCT APPRAISED TO: HAUL MILES 102

1 Oroville

RECONSTRUCTION (MBM) 2.2

TEMP. RD. CONST. (MBM) 1

BASIC DATA PERIOD CY 1980

PURCH. CR. LIM. $ 240574

TEMP. RD. COST $ 956

ADJ. TO (APPR. BASE PERIOD) 3rd Qtr. 1982

	CARD TYPE 6							CARD TYPE 7 UNIT OF MEASURE
1. Product/Unit	1-1	1-1	1-1	1-1	1-1			1
2. Species	PP&JP	SP	WF-RF	DF	IC			TOTAL OR AVERAGE
3. Species Code	122	117	015	205	081			
4. % By Species	27.8 %	11.1 %	45.0 %	8.7 %	7.4 %	%	%	T 100.0%
5. Volume	2380	950	3850	740	630			T 8,550
6. Selling Value (L.T./M.B.) Adj. 1/	382.19	468.65	186.18	232.79	283.80			A 293.50
7. Lumber Haul	0.00	0.00	0.00	0.00	0.00			0.00
8. Overrun % Factor	1.017	1.026	1.210	1.192	1.129			
9. Chip & Bark Value L.S.	21.14	21.14	21.14	21.14	21.14			
10. SELLING VALUE L.S.	356.25	438.36	217.29	252.95	270.97			A 287.58
11. Felling and Bucking								A 12.96
12. Skidding and Loading								A 36.99
13. Miscellaneous								0.00
14. SUBTOTAL, stump-to-truck								49.95
15. Haul								A 50.94
16. Road maintenance								A 6.48
17. SUBTOTAL, transportation								57.42
18. General logging overhead								A 26.87
19. General logging, miscellaneous								0.00
20. SUBTOTAL, administrative								26.87
21. Slash disposal								A 4.40
22. Erosion control								A 1.13
23. Snag disposal								A .05
24. Miscellaneous Required Slash Disposal								2.91
25. SUBTOTAL, Environ. Protection								8.49
26. Temporary roads								A 0.11
27. Other temporary developments								A 0.00
28. SUBTOTAL, temporary development								0.11
29. SUBTOTAL, logging costs	142.84	142.84	142.84	142.84	142.84			A 142.84
30. Specified road costs (A10)								A 28.14
31. TOTAL LOGGING COST L.S.								A 170.98
32. Mfg. cost L.T.	151.26	158.41	117.57	109.87	112.58			A 130.45
33. Chip & Bark + Tax Value L.S.	16.73	17.99	8.60	15.30	12.45			
34. MFG COST L.S.	170.56	180.43	150.86	146.27	139.55			A 158.40
35. TOTAL PRODUCTION COST L.S.	341.54	351.41	321.84	317.25	310.53			A 329.38
36. CONVERSION (10)-(35)	14.71	86.95	-140.55	-64.30	-39.56			A -41.80
37. P&R ratio % Normal/Advertised	10	10	9	9	11			N 8.64 Adv -19.57
38. P&R margin Normal/Advertised	29.83	37.29	15.62	18.56	24.06			N22.86 Adv -51.80
39. Indicated Net Stumpage (36)-(38)	-15.12	49.66	-120.17	-82.86	-63.62			A -64.66
40. Indicated Advertised rates (39)+(30)								T 312,263.10
	13.02	77.80	-92.03	-54.72	-35.48			A -36.52
41. Base rates	10.00	10.00	10.00	10.00	10.00			A 10.00
42. Adjustments to Base Rates	-3.02	-67.80	+102.03	+64.72	+45.48			A +46.52
43. Advertised rates (40)+(42)								T 85,500.00
	10.00	10.00	10.00	10.00	10.00			A 10.00
44. Indicated stat. net rates (43)-(30)	-18.14	-18.14	-18.14	-18.14	-18.14			A -18.14
45. Appraised net rates*	10.00	10.00	10.00	10.00	10.00			A 10.00
46. Base indices	300.68	402.73	168.97	173.34	xx			
1/ Selling Value Adj. Factor	.8617	.8677	.8698	.8354	.7797			

*Adjusted if needed to not less than base rate (line 41), using the line 42 procedure.

Note: Lines 39, 40, 43-45 include planned SA&B collections as authorized by 46 Stat. 527; 16 U.S.C. 576

USDA - FOREST SERVICE

REPORT OF TIMBER SALE

CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

REGION 0 5
STATE 0 6
ACRES IN SALE 1,879
FOREST 1 1
COUNTY 0 6 3
DISTRICT (OR AREA) 6 5
SALE NUMBER 0 0 6
SALE NAME Harwood Timber Sale
LEGAL DESCRIPTION T 27 N R 13 E
QTR.-FY 1 - 8 3
COMPARTMENT 0 _ _ _
BID DATE 01/ 05/ 83/
SALVAGE N
CONT. NO. 053837
STATUS 4
PRICING METHOD 3
CONTRACT FORM 2400 6 _
SBA SET-ASIDE N
PLAN'D SAB COL. $ 301,116.00
CONTRACTING OFFICER 5
APP. BASE PERIOD 2 - 8 2
TERM. DATE 03/ 31/ 85/
METHOD OF SALE 4
ZONE 2
CONTRACT DATE _/_/_/
REG. INSTR. 6 _

SPECIES	SPEC CODE	PROD UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP	122	1-1	10,350	11.46	153.71	161.98	168.54	85.42	11.40	11.40							
SP	117	1-1	Nom.	10.00	1.73	10.00	10.00	10.00	10.00	10.00							
WF	015	1-1	430	10.00	211.80	220.07	147.41	74.56	11.40	11.40							
DF	205	1-1	120	11.46	319.17	327.44	168.93	85.45	11.40	11.40							
IC	081	1-1	200	11.46	319.17	327.44	168.93	85.45	11.40	11.40							
LP	108	1-1	Nom.	1.00	1.00	1.00	1.00	1.00	1.00	1.00							
					1,784,306.90												
TOTAL/AVER.		1-1	11,100	11.40	160.73	169.00											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Susanville Forest Product	L		1,875,903.90
2	Sierra Pacific Industries	L		1,865,972.90
3	Nevada Skylines	B		943,501.80
4	Siller Brothers	S		126,578.00
5	Louisiana Pacific Ind.	L		126,578.00
6				
7				
8				
9				
10				
11				
12				

DISTRIBUTION: Orig. and 1cc to RO (orig. to RO), 1cc to RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature

TITLE Resource Clerk

DATE 1/10/83

REMARKS

Waiting for EEO Compliance before awarding sale.

APPRAISAL SUMMARY

SALE NAME Harwood Timber Sale | SUMMARY CHECKED BY Richard Williams | DATE 10/15/82

CARD TYPE 5

SPECIFIED RD. CONST. (Miles) 2

RECONSTRUCTION (Miles) 8 1

PURCH. CR. LIM. $ 95173

PRODUCT: 1

APPRAISED TO: Susanville, CA

HAUL MILES: 19.80

TEMP. RD. CONST. (Miles) 4

TEMP. RD. COST $ 1081

BASIC DATA PERIOD: 1981

ADJ. TO (APPR. BASE PERIOD) 2nd QTR 82

	CARD TYPE 6							UNIT OF MEASURE	
1. Product Unit	1-1	1-1	1-1	1-1	1-1	1-1	1-1	1	
2. Species	PP/JP	SP/WWP	WF/RF	DF	IC	LP		TOTAL OR AVERAGE	
3. Species Code	122	117	015	205	081	108			
4. % By Species	93.24%	0 %	3.87%	1.08%	1.80%	0 %	%	T 100.0%	
5. Volume	10350	Nom.	430	120	200	Nom		T 11100	17-23
6. Selling Value (L.T.)	331.86	383.03	176.96	220.29	283.80	178.31		A 323.79	
7. Adjustment factors	.8634	.8642	.8748	.8453	.8119	.9220			
8. Selling price L.T. adj	286.53	331.01	154.80	186.21	230.42	164.40			
9. Overrun factors	1.009	1.038	1.238	1.272	1.129	1.178			
10. SELLING VALUE L.S.	318.33	372.81	220.86	266.08	289.36	222.88		A 313.47	
11. Falling and Bucking								A 11.85	24-28
12. Skidding and Loading								A 27.78	29-33
13.									34-38
14. SUBTOTAL, stump-to-truck								39.63	
15. Haul								A 26.10	
16. Road maintenance								A 5.55	
17. SUBTOTAL, transportation								31.65	
18. General logging overhead								A 22.62	
19.									51-54
20. SUBTOTAL, administrative								22.62	
21. Slash disposal								A 2.63	55-58
22. Erosion control								A 1.54	59-62
23. Snag disposal								A .0901	63-66
24. Required slash deposit								15.04	67-70
25. SUBTOTAL, Environ. Protection								19.30	
26. Temporary roads								A .0974	71-74
27. Other temporary developments								A 0	75-78
28. SUBTOTAL, temporary development								.0974	
29. SUBTOTAL, logging costs	113.30	113.30	113.30	113.30	113.30	113.30		A 113.30	
30. Specified road costs (A10)	8.57	8.57	8.57	8.57	8.57	8.57		A 8.57	
31. TOTAL LOGGING COST L.S.	121.87	121.87	121.87	121.87	121.87	121.87		A 121.87	
32. Mfg. cost L.T.	151.70	160.73	115.75	110.72	120.88	160.73		A 149.31	
33. Yield tax;By-prod Mfg.	19.63	18.01	10.72	10.72	14.77	9.10			
34. MFG. COST L.S.	172.70	184.89	154.02	151.56	151.24	198.44		A 171.36	
35. TOTAL PRODUCTION COST L.S.	294.57	306.72	275.89	273.43	273.11	320.31		A 293.23	
36. CONVERSION (10)-(35)	23.76	66.09	-55.03	-7.35	16.25	-97.43		A 20.24	
37. P&R ratio % Normal Advertised	10	10	9	9	11	9		N 9.68 Adv 3.58	
38. P&R margin Normal Advertised	28.16	33.11	17.53	21.26	27.82	17.69		N 27.67 Adv 10.23	
39. Indicated Net Stumpage (36)-(38)	-4.40	32.98	-72.56	-28.61	-11.57	-115.12		A -7.43	
40. Indicated Advertised rates (39)+(30)	4.17	41.55	-63.99	-20.04	-3	-106.55		A 1.14	
41. Base rates	11.46	10.00	10.00	11.46	11.46	1.00		A 10.00	
42. Adjustments to Base Rates	7.29*	0	73.99	31.50*	14.46*	107.55		A 10.26*	
43. Advertised rates (40)+(42)	11.46	10.00	10.00	11.46	11.46	1.00		A 11.40	
44. Indicated stat. net rates (43)-(30)	2.89	1.43	1.43	2.89	2.89	-7.57		A 2.83	
45. Appraised net rates*	11.46	10.00	10.00	11.46	11.46	1.00		A 11.40	
46. Base indices	301.29	401.09	169.95	175.40		167.39			

*Base rates for Ponderosa Jeffery Pine, Douglas Fir and Incense-Cedar have been increased by $1.46/MBF to cover cost of regeneration.

*Advertised if equal to not less than base rate (line 41), using the line 42 procedure.
Note Lines 39, 40, 43-45 include planned SAR collections as authorized by 46 Stat. 527; 16 U.S.C. 576.

GPO 863-135

Chip and Bark value L.S. = $29.22 per MBF Chip & Bark Mfg cost = $5.86 per MBF

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

REGION	0 5	FOREST	Tahoe 1 7	DISTRICT (OR AREA)	5 4	SALE NUMBER	0 1 0
STATE	0 6	COUNTY	0 6 1	SALE NAME	SERPENT Y. G.	QTR.-FY	2 - 8 3
ACRES IN SALE	400			LEGAL DESCRIPTION	T.15N., R.11E., MDM	COMPARTMENT	- - - -
BID DATE	02 / 10 / 83 /	STATUS	1	SBA SET-ASIDE	N	APP. BASE PERIOD	3 - 8 2
SALVAGE	N	PRICING METHOD	1	PLAN'D SAD COL $	10,074	TERM DATE	07/ 31 / 83/
CONT. NO.	17-051728	CONTRACT FORM 2400	6 T	CONTRACTING OFFICER	D	METHOD OF SALE	S
ZONE	1	CONTRACT DATE	02/ 11/ 83/	REG. 36CFR221	6 -		

SPECIES	SPEC CODE	PROD UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP/JP	150	1-1	328	24.43	133.11	133.11	138.00	114.00	100.35	90.50	71.65	64.84	60.00	51.01			
SP	117	1-1	4	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43			
WF	025	1-1	Nom.	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43			
DF	205	1-1	25	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43	24.43			
IC	081	1-1	64	24.43	133.11	133.11	24.43	114.00	45.95	90.50	24.43	41.32	60.00	24.43			
TOTAL/AVG.		1-1	421	24.43	125.62	125.62											

SUMMARY OF BIDDERS

RANK	NAME	SBA	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Bohemia, Inc.	L		$52,887.59
2	Arens & Day Logging	N		47,535.99
3	High Sierra Land & Tbr	N		45,396.47
4	Chipco	N		36,564.07
5	Siller Bros., Inc.	N		36,184.47
6	Balmain Logging	N		25,773.19
7	Renee Godon & Sons	N		24,620.47
8	B & C Timber	N		24,228.47
9	Emerson Logging	N		19,003.27
10				
11				
12				

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof.

Signature Eleanor M. Chancellor

TITLE Resource Clerk

DATE 2-11-83

REMARKS

DISTRIBUTION: Orig. and 1cc to RO (orig. to WO), 1cc to RO of SBA

APPRAISAL SUMMARY

SALE NAME SERPENT YOUNG GROWTH T.S.
SUMMARY CHECKED BY M. Triggs
DATE 12/13/82

CARD TYPE 5

SPECIFIED RD. CONST. (Miles) — 0
RECONSTRUCTION (Miles) — 0
PURCH. CR. LIM. $ — — — — — — 0
TEMP. RD. CONST. (Miles) — — 0
TEMP. RD. COST $ — — — — — — 0
PRODUCT: 01 APPRAISED TO: Auburn HAUL MILES: (33-35) 26
BASIC DATA PERIOD: CY 1981
ADJ. TO (APPR. BASE PERIOD) 3rd Qtr. 82

CARD TYPE 7

CARD TYPE 6								UNIT OF MEASURE I 16 TOTAL OR AVERAGE
1. Product Unit 14-15	1-1	1-1	1-1	1-1	1-1			
2. Species	PP-JP	SP	WF	DF	IC			
3. Species Code 16-18	150	117	025	205	081			
4. % By Species	78 %	1 %	0 %	6 %	15 %	%	%	T 100.0%
5. Volume 19-25	328	4	Nom.	25	64			T 421 17-23
6. Selling Value (L.T.) ~~V.S.~~ Adj.	287.30	375.12	149.09	192.38	221.28			A 272.46
7. Lumber Haul	0.81	1.66	0.00	1.51	1.40			
8. Overrun	1.068	1.042	1.266	1.329	1.129			
9. Chip and Bark Value L.T.	29.02	29.02	29.02	29.02	29.02			
10. SELLING VALUE L.S. 26-31	334.99	418.17	217.77	282.69	277.26			A 323.90
11. Falling and Bucking								A 15.63 24-28
12. Skidding and Loading								A 41.79 29-33
13.								— 34-38
14. SUBTOTAL, stump-to-truck								57.42
15. Haul								A 36.90 39-42
16. Road maintenance Required Road Maintenance Deposit = $4.14/MBF								A 11.11 43-46
17. SUBTOTAL, transportation								48.01
18. General logging overhead								A 23.76 47-50
19. Protection of Improvements								0.24 51-54
20. SUBTOTAL, administrative								24.00
21. Slash disposal								A 6.22 55-58
22. Erosion control								A 1.80 59-62
23. Snag disposal								A 0.06 63-66
24. Slash disposal (Required Deposit BD-031)								1.02 67-70
25. SUBTOTAL, Environ. Protection								9.10
26. Temporary roads								A — 71-74
27. Other temporary developments								A 0.11 75-78
28. SUBTOTAL, temporary development								0.11
29. SUBTOTAL, logging costs 32-36	138.64 →							A 138.64
30. Specified road costs (A.T.)	-0- →							A —
31. TOTAL LOGGING COST L.S.	138.64 →							A 138.64
32. Mfg. cost L.T.	167.79	163.13	136.91	114.00	136.96			A 159.86
33. Chip and Bark Mfg. + Yield Tax	12.06	15.56	5.92	8.92	10.66			
34. MFG. COST L.S.	191.26	185.54	17925	160.43	165.29			A 185.43
35. TOTAL PRODUCTION COST L.S.	329.90	324.18	317.89	299.07	303.93			A 324.07
36. CONVERSION (10)-(35)	5.09	93.99	-100.12	-16.38	-26.67			A -0.17
37. P&R ratio % Normal Advertised	13	13	12	12	14			13.08 | -8.59
38. P&R margin Normal Advertised	38.54	48.11	23.33	30.29	34.05			37.46 | -24.60
39. Indicated Net Stumpage (36)-(38)	-33.45	45.88	-123.45	-46.67	-60.72			A -37.63
40. Indicated Advertised rates (39)+(30)	-33.45	45.88	-123.45	-46.67	-60.72			-15,840.91 A -37.63
41. Base rates	24.43	24.43	24.43	24.43	24.43			A 24.43
42. Adjustments to Base Rates	+57.88	-21.45	+147.88	+71.10	+85.15			A +62.06
43. Advertised rates (40)+(42) 42-47	24.43	24.43	24.43	24.43	24.43			10,285.03 A 24.43
44. Indicated stat. net rates (43)-(30)	24.43	24.43	24.43	24.43	24.43			A 24.43
45. Appraised net rates* 48-53	24.43	24.43	24.43	24.43	24.43			A 24.43
46. Base indices N/A								
Yield Tax	6.22	9.72	0.08	3.08	4.82			

*Adjusted if needed to not less than base rate (line 41), using the line 42 procedure.

Note: Lines 39, 40, 43-45 include planned SAB collections as authorized by 46 Stat. 527; 16 U.S.C. 576.

GP 0 883-183

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

REGION 0 5
STATE 0 6
ACRES IN SALE 1184
BID DATE MO. 04/ DAY 18 / YR. 83/
SALVAGE N
CONT. NO. 054041

FOREST 1 1
COUNTY 0 0 7
STATUS 1
PRICING METHOD 3
CONTRACT FORM 2400 6

DISTRICT (OR AREA) 5 4
SALE NUMBER 0 1 5
SALE NAME Galen Timber Sale
LEGAL DISCRIPTION T21N, R5E, T21N, R6E
SBA SET-ASIDE N
PLAN'D SAB COL $ 308,319
CONTRACTING OFFICER 8

QTR.-FY 3 QTR. - 8 3 YEAR
COMPARTMENT 0 - - -
APP. BASE PERIOD 4 - 8 2
TERM. DATE 03/ 31 / 85 /
METHOD OF SALE A
ZONE 1
CONTRACT DATE 04 / 19 /83 /
REG. 36CFR221 6 -

SPECIES	SPEC CODE	PROD UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP/JP	150	1-1	2350	34.44	213.90	249.39	150.50	47.25	34.44								
SP/WWP	117	1-1	2280	34.44	34.44	34.44	150.50	47.25	34.44								
WF/RF	025	1-1	1080	10.00	107.95	143.44	45.75	13.50	10.00								
DF	205	1-1	3290	34.44	70.53	106.02	150.50	47.25	34.44								
IC	081	1-1	750	34.44	213.89	249.38	150.50	47.25	34.44								
OH	004	1-1	700	6.00	6.00	6.00	6.00	6.00	6.00								
					1,094,	135.40)											
TOTAL/AVER.		1-1	10450	30.01	104.73	130.10											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Roseberg Lumber Company	L		1,359,545.70
2	Louisiana Pacific Corp.	L		1,358,500.00
3	Siller Brothers, Inc.	N		428,450.00
4	Sierra Pacific Ind. FRD	L		313,595.00
5				
6				
7				
8				
9				
10				
11				
12				

DISTRIBUTION: Orig. and 1cc to RO (orig. to WO), 1cc to RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Robert C Foster
TITLE Resource Officer
DATE 4/25/83

REMARKS

APPRAISAL SUMMARY

SALE NAME GALEN | PART CHECKED BY: | DATE

CARD TYPE 5

SPECIFIED RD. CONST. (Miles) 17 0.2 19 | RECONSTRUCTION (Miles) 20 2.6 22 | PURCH. CR. LIM. $ 23 263166

PRODUCT: 1 | APPRAISED TO: | HAUL MILES: (33-35) 30 | TEMP. RD. CONST. (Miles) 30 0.8 32 | TEMP. RD. COST $ 34 ---2550

BASIC DATA PERIOD: CY 1981 | ADJ. TO (APPR. BASE PERIOD) 4th QTR.1982

CARD TYPE 7

		CARD TYPE 6							UNIT OF MEASURE	
1. Product/Unit	14-15	1-1	1-1	1-1	1-1	1-1	1-1		1	16
2. Species		PP/JP	SP/WWP	WF/RF	DF	IC	OH		TOTAL OR AVERAGE	
3. Species Code	16-18	150	117	025	205	081	004		[redacted]	
4. % By Species		22 %	22 %	10 %	32 %	7 %	7 %	%	T	100.0%
5. Volume	19-23	2350	2280	1080	3290	750	700		T 10,450	17-23
6. Selling Value (L.T.) ~~XXXX~~ USS ADJ		391.32	395.49	195.72	249.26	283.80	228.07		A 308.64	
7. ADJUSTMENT FACTORS		.8452	.8620	.8458	.8185	.7542	1.0000			
8. SELLING VALUE L.T. ADJ.		330.74	340.91	165.54	204.02	214.04	228.07			
9. OVERRUN FACTORS		1.0020	1.0310	1.1970	1.2660	1.1290	1.0000			
10. SELLING VALUE L.S. **	26-31	360.43	380.50	227.17	287.31	270.67	257.09		A 314.65	
11. Falling and Bucking									A 12.77	24-28
12. Skidding and Loading									A 31.06	29-33
13.										34-38
14. SUBTOTAL, stump-to-truck									43.83	
15. Haul									A 31.66	39-42
16. Road maintenance									A 3.61	43-46
17. SUBTOTAL, transportation									35.27	
18. General logging overhead		INCLUDES $1.69/MBF			SKYLINE DEPRECIATION				A 30.33	47-50
19. LOGGING DEPRECIATION									(.00)	51-54
20. SUBTOTAL, administrative									30.33	
21. Slash disposal									A 5.56	55-58
22. Erosion control									A .97	59-62
23. Snag disposal									A .41	63-66
24. REQUIRED SLASH DEPOSIT (BD-031, $1.83)									1.83	67-70
25. SUBTOTAL, Environ. Protection									8.77	
26. Temporary roads									A .34	71-74
27. Other temporary developments									A(.00)	75-78
28. SUBTOTAL temporary development									.34	
29. SUBTOTAL, logging costs	11-36	118.54	118.54	118.54	118.54	118.54	118.54		A 118.54	
30. Specified road costs (A10)									A 25.37	
31. TOTAL LOGGING COST L.S.		143.91	143.91	143.91	143.91	143.91	143.91		A 143.91	
32. Mfg. cost L.T.		151.26	158.41	117.57	109.87	112.58	131.50		A 132.21	
33. BY- PROD MFG; YIELD TAX		10.83	10.26	7.37	7.30	8.86	5.99			
34. MFG. COST L.S.	37-41	162.39	173.58	148.10	146.40	135.96	137.49		A 154.76	
35. TOTAL PRODUCTION COST L.S.		306.30	317.49	292.01	290.31	279.87	281.40		A 298.67	
36. CONVERSION (10)-(35)		54.13	63.01	-64.84	-3.00	-9.20	-24.31		A 15.98	
37. P&R ratio % Normal·Advertised		13.00	13.00	12.00	13.00	14.00	16.00		N 11.96	Adv-4.9
38. P&R margin Normal Advertised		38.55	40.86	21.62	30.13	30.12	31.96		N 33.61	Adv-14.8
39. Indicated Net Stumpage (36)-(38)		15.58	22.15	-86.46	-33.13	-39.32	-56.27		~~A~~ 17.61	
40. Indicated Advertised rates (39)+(30)		[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	T 80,978	
		40.95	47.52	-61.09	-7.76	-13.95	-30.90		A 7.75	
41. Base rates		34.44	34.44	10.00	34.44	34.44	6.00		A 30.01	313,595
42. Adjustments to Base Rates		-6.51	-13.08	71.09	42.20	48.39	36.90		A 22.26	
43. Advertised rates (40)+(42)	43-47	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	T 313,595	
		34.44	34.44	10.00	34.44	34.44	6.00		A 30.01	
44. Indicated stat. net rates (43)-(39)		9.07	9.07	-15.37	9.07	9.07	-19.37		A 4.64	
45. Appraised net rates*	48-53	34.44	34.44	10.00	34.44	34.44	6.00		A 30.01	
46. Base indices		294.86	400.09	164.31	169.84	.00	.00			
**INCLUDES CHIP AND BARK VALUE		OF $29.02								

*Adjusted if needed to not less than base rate (line 41), using the line 42 procedure.
Note Lines 39, 40, 43-45 include planned SAR collections as authorized by 46 Stat. 527; 16 U.S.C. 576.

2400-17

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

REGION 0 5
STATE 0 6
ACRES IN SALE 2647
FOREST Shasta 1 4
COUNTY 0 8 9
DISTRICT (OR AREA) 5 6
SALE NUMBER 0 1 6
SALE NAME Brown Bear
LEGAL DISCRIPTION T36N, R6W MDM
QTR.-FY 2 - 8 3
COMPARTMENT

BID DATE 02/ 24/ 83/
SALVAGE N
CONT. NO. 052000
STATUS 1
PRICING METHOD 3
CONTRACT FORM 2400 6
SBA SET-ASIDE N
PLAN'D SAN COL $ 314,363
CONTRACTING OFFICER S
APP. BASE PERIOD 3 - 8 2
TERM. DATE 03/ 31/ 86/
METHOD OF SALE A
ZONE 3
CONTRACT DATE 02/ 28/ 83/
REG. INCREMENT 6

SPECIES	SPEC CODE	PROD UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP/JP	122	1-1	700	21.59	21.59	23.00	81.23	70.62	35.09	21.59	21.59	21.59					
SP/WWP	117	1-1	1500	21.59	52.96	85.14	81.23	70.62	35.09	21.59	21.59	21.59					
WF/RF	015	1-1	1300	21.59	52.96	85.14	81.23	70.62	35.09	21.59	21.59	21.59					
DF	205	1-1	7700	21.59	52.97	85.14	81.23	70.62	35.09	21.59	21.59	21.59					
IC	081	1-1	200	21.59	52.72	84.89	81.23	70.62	35.09	21.59	21.59	21.59					
					3'170												
TOTAL/AVER.		1-1	11,400	21.59	51.04	81.32											

SUMMARY OF BIDDERS

RANK	NAME	SBA L/S	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Sierra Pacific Industries	L		$927,060.00
2	Nevada Skylines, Inc.	S		926,000.00
3	Siller Brothers, Inc.	S		805,000.00
4	Russell Logging	S		400,000.00
5	Schmidbauer Lumber Co.	S		246,126.00
6	Roseburg Lumber Co.	L		246,126.00
7	Louisiana-Pacific	L		246,126.00
8				
9				
10				
11				
12				

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature

TITLE Supervisory Resource Specialist

DATE 2/28/83

REMARKS

	PP	SP	WF	DF
1.	4.33	.57	xx	.48
2.	1.11	1.16	.91	2.96
3.	6.17	4.09	98.88	65.90
4.	xx	xx	.21	30.66
5.	88.39	94.18	xx	xx

Actual Bid Value = $927,048.00

DISTRIBUTION: Orig. and 1cc to RO (with. to WO), 1cc to RO of SBA

APPRAISAL SUMMARY

SALE NAME Brown Bear
SUMMARY CHECKED BY M. H. Parker
DATE 1/4/83

CARD TYPE 3

SPECIFIED RD. CONST. (Miles) 8.9
RECONSTRUCTION (Miles) 1.1
PURCH. CR. LIM. $ 345186
PRODUCT: 1
APPRAISED TO: Central Valley
HAUL MILES: 46
TEMP. RD. CONST. (Miles) 0.6
TEMP. RD. COST $ 486
BASIC DATA PERIOD: CY 1981
ADJ. TO (APPR. BASE PERIOD) 3rd Qtr. 1982

	CARD TYPE 4							CARD TYPE 7
								UNIT OF MEASURE
1. Product Unit	-1-	-1-	-1-	-1-	-1-			1
2. Species	PP/JP	SP/WWP	WF/RF	DF	IC			TOTAL OR AVERAGE
3. Species Code	122	117	015	205	081			
4. % By Species	6.1 %	13.2 %	11.4 %	67.5 %	1.8 %	%	%	T 100.0%
5. Volume	700	1,500	1,300	7,700	200			T 11,400
6. Selling Value (L.T.) (XX) Adj.	304.23	321.81	179.81	245.68	221.28			A 251.35
7. Overrun Factor	1.010	1.038	1.238	1.252	1.129 ✓			
8. Chip & Bark L.S.	21.14	21.14	21.14	21.14	21.14 ✓			
9.								
10. SELLING VALUE L.S.	328.41	355.18	243.74	328.73	270.97			A 321.49
11. Felling and Bucking								A 12.18
12. Skidding and Loading								A 55.56
13. Constructed Cost Depreciation								14.32
14. SUBTOTAL, stump-to-truck								82.06
15. Haul								A 43.90
16. Road maintenance		(Routine $3.52)						A 3.52
17. SUBTOTAL, transportation								47.42
18. General logging overhead								A 28.44 ✓
19.		(Third Party Scaling $2.04)						
20. SUBTOTAL, administrative								28.44 ✓
21. Slash disposal								A 10.99
22. Erosion control								A 0.27
23. Snag disposal								A 0.26
24. Required Deposit			(BD-031)					11.52
25. SUBTOTAL, Environ. Protection								23.04
26. Temporary roads								A 0.04
27. Other temporary developments								A -0-
28. SUBTOTAL, temporary development								0.04
29. SUBTOTAL, logging costs								A 181.00
30. Specified road costs (A10)								A 30.28 ✓
31. TOTAL LOGGING COST L.S.								A 211.28
32. Mfg. cost L.T.	151.75	160.80	115.78	110.75	120.91			A 120.60
33. Chip & Bark Mfg. + Tax*	17.46	19.49	10.98	16.65	13.41			-
34. MFG. COST L.S.	170.73	186.40	154.32	155.31	149.92			A 160.14
35. TOTAL PRODUCTION COST L.S.	382.01	397.68	365.60	366.59	361.20			A 371.42
36. CONVERSION (10)-(35)	-53.60	-42.50	-121.86	-37.86	-90.23			A -49.93
37. P&R ratio % Normal/Advertised	11	11	10	10	12			%10.23 | A -24.2
38. P&R margin Normal/Advertised	29.54	32.20	19.41	27.13	25.79			%27.04 | A -71.5
39. Indicated Net Stumpage (36)-(38)	-83.14	-74.70	-141.27	-64.99	-116.02			A -76.98
40. Indicated Advertised rates (39)+(30)								T -532,334
	-52.86	-44.42	-110.99	-34.71	-85.74			A -46.70
41. Base rates	21.59	21.59	21.59	21.59	21.59			A 21.59
42. Adjustments to Base Rates	74.45	66.01	132.58	56.30	107.33			A 68.29
43. Advertised rates (40)+(42)								T 246,126
	21.59	21.59	21.59	21.59	21.59			A 21.59
44. Indicated stat. net rates (43)-(30)	-8.69	-8.69	-8.69	-8.69	-8.69			A -8.69
45. Appraised net rates*	21.59	21.59	21.59	21.59	21.59			A 21.59
46. Base indices	300.68	402.73	168.97	173.34	xx ✓			xx
* Yield Tax	11.34	13.37	4.86	10.53	7.29			

*Adjusted, if needed to not less than base rate (line 41), using the line 42 procedure.
Note: Lines 39, 40, 43-45 include planned SAR collections as authorized by 49 Stat. 527; 16 U.S.C. 576.

8P 0 603-109

2400-17

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

REGION 0 5
STATE 0 6
ACRES IN SALE 4500
BID DATE 02/ 22/ 83/
SALVAGE N
CONT. NO. 052018

FOREST Shasta-Trinity 1 4
COUNTY 0 9 3
STATUS 1
PRICING METHOD 3
CONTRACT FORM 2400 6

DISTRICT (OR AREA) 6 1
SALE NAME Bear
LEGAL DISCRIPTION T40N R2E MDM
SBA SET-ASIDE N
PLAN'D SAB COL $ 685,826
CONTRACTING OFFICER S

SALE NUMBER 0 1 7
APP. BASE PERIOD 3-8 2
TERM. DATE 03 / 31 / 85/
METHOD OF SALE A

QTR.-FY 2 - 8 3
COMPARTMENT
ZONE 1
CONTRACT DATE 03/ 01/ 83/
RFG. INCREASE 6

SPECIES	SPEC CODE	PROD. UN.T	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP/JP	150	1-1	4700	32.23	90.29	101.3[illegible]	71.56	33.00	32.23	32.23	32.23						
SP/WWP	117	1-1	800.	32.23	32.23	32.23	71.56	33.00	32.23	32.23	32.23						
WF/RF	025	1-1	3600	32.23	32.23	32.24	71.56	33.00	32.23	32.23	32.23						
DF	205	1-1	Nom.	32.23	32.23	32.23	32.23	32.23	32.23	32.23	32.23						
IC	081	1-1	100	32.23	32.23	32.23	71.56	33.00	32.23	32.23	32.23						
LP	101	1-1	900	23.23	78.73	89.74	51.58	23.78	23.23	23.23	23.23						
KP	103	1-1	100	1.00	29.33	40.31	2.22	1.02	1.00	1.00	1.00						
					22 %												
TOTAL/AVER.		1-1	10,200	31.13	63.06	69.22											

SUMMARY OF BIDDERS

RANK	NAME	SBA (L or S)	CERTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Sierra Pacific Ind.	L		$706,000.00
2	Fletcher Forest Products	S		705,000.00
3	Alpine Veneers	S		325,000.00
4	Gregory Timber Resources	S		317,523.00
5	Roseburg Lumber Co.	L		317,523.00
6	North State Timber	S		317,523.00
7				
8				
9				
10				
11				
12				

DISTRIBUTION: Orig. and 1cc to RO (orig. to RO), 1cc to RO of SBA

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Agnes M. Hill

TITLE Supervisory Contract Examiner

DATE 3/1/83

REMARKS

	PP	SP	WF
1.	0.00	8.75	0.00
2.	0.00	2.93	0.00
3.	4.12	14.12	100.00
4.	-	-	-
5.	95.88	74.20	-

Actual Bid Value = $706,025

APPRAISAL SUMMARY

SALE NAME Bear	SUMMARY CHECKED BY VTB	DATE 1/9/83

CARD TYPE 5

SPECIFIED RD. CONST. (Miles) 2.3
RECONSTRUCTION (Miles) 0.6
PURCH. CR. LIM. $ 62812
PRODUCT 1 APPRAISED TO Mt. Shasta HAUL MILES 34
TEMP RD. CONST (Miles) 1.5
TEMP. RD. COST $ 2754
BASIC DATA PERIOD: 1982
ADJ. TO (APPR. BASE PERIOD) 3rd Qtr. '82

	CARD TYPE 1							UNIT OF MEASURE	
1. Product Unit	1-1	1-1	1-1	1-1	1-1	1-1	1-1	1	
2. Species	PP/JP	SP/WWP	WF/RF	DF	IC	LP	KP	TOTAL OR AVERAGE	
3. Species Code	150	117	025	205	081	108	103		
4. % by Species	46.1 %	7.8 %	35.3 %	0 %	1.0 %	3.3 %	1.0 %	T	100.0%
5. Volume	4700	800	3600	Non.	100	900	100	T 10,200	
6. Selling Value (L.T.)	324.00	404.28	172.88	266.43	283.80	178.31	178.31	A 262.28	
7. Adjustment Factor	.8617	.8577	.8698	.8354	.7797	.8924	.8924		
8. Overrun Factor	1.055	1.048	1.132	1.299	1.129	1.178	1.178		
9. Chip & Bark L.S.	29.02	29.02	29.02	29.02	29.02	29.02	29.02		
10. SELLING VALUE L.S.	323.57	396.65	226.31	318.15	273.85	216.46	216.46	A 284.04	
11. Felling and Bucking								A 17.96	
12. Skidding and Loading								A 47.16	
13.									
14. SUBTOTAL, stump-to-truck								65.12	
15. Haul								A 39.23	
16. Road maintenance	(Routine $4.96:		Deferred	$5.72)				A 10.68	
17. SUBTOTAL, transportation								49.96	
18. General logging overhead								A 24.06	
19. Third Party Scaling								2.04	
20. SUBTOTAL, administrative								26.10	
21. Slash disposal								A 0.04	
22. Erosion control								A 0.60	
23. Snag disposal								A 0.01	
24. Required Deposits (BD-031)								7.00	
25. SUBTOTAL, Environ. Protection								7.65	
26. Temporary roads								A 0.27	
27. Other temporary developments								A 0.00	
28. SUBTOTAL, temporary developments								0.27	
29. SUBTOTAL, logging costs	149.10	149.10	149.10	149.10	149.10	149.10	149.10	A 149.10	
30. Specified road costs (A12)								A 6.16	
31. TOTAL LOGGING COST L.S.	155.26	155.26	155.26	155.26	155.26	155.26	155.26	A 155.26	
32. Mfg. cost L.T.	151.26	153.41	117.57	109.37	112.58	151.26	151.26	A 139.55	
33. Chip & Bark + Tax* L.S.	17.24	18.70	10.24	5.34	15.56	8.68	8.68		
34. MFG. COST L.S.	176.82	184.71	164.47	148.56	142.66	186.86	186.86	A 173.73	
35. TOTAL PRODUCTION COST L.S.	332.08	339.97	319.73	303.82	297.92	342.12	342.12	A 328.99	
36. CONVERSION (10)-(35)	-8.51	56.68	-93.42	14.33	-19.07	-125.66	-125.66	A -44.95	
37. P&R ratio % Normal Advertised	11	11	10	10	12	10	10	V 10.55	-29.57
38. P&R margin Normal Advertised	31.46	33.70	20.01	28.36	29.22	19.12	19.13	V 26.75	-76.08
39. Indicated Net Stumpage (36)-(38)	-39.97	17.93	-113.43	-14.03	-48.29	-144.78	-144.78	A -71.71	
40. Indicated Advertised rates (39)+(30)								T -668,600.00	
	-33.81	24.14	-107.27	-7.87	-42.13	-138.62	-138.62	A -65.55	
41. Base rates	32.23	32.23	32.23	32.23	32.23	23.23	1.00	A 31.13	
42. Adjustments to Base Rates	66.04	8.09	139.50	40.10	74.36	161.85	139.62	A 96.63	
43. Advertised rates (40)+(42)								T 317,523.00	
	32.23	32.23	32.23	32.23	32.23	23.23	1.00	A 31.13	
44. Indicated max. net rates (43)-(30)*	26.07	26.07	26.07	26.07	26.07	17.07	-5.13	A 24.97	
45. Appraised net rates*	32.23	32.23	32.23	32.23	32.23	23.23	1.00	A 31.13	
46. Base indices	300.68	402.73	168.97	173.34	--	162.03	--		
*Timber Yield Tax	11.40	12.86	4.38	-0-	9.72	2.84	2.84		

*Advertised if reduced to not less than base rate (line 41), using the line 42 procedure.
Note: Lines 39, 40, 43-45 include planned SAP collections as authorized by 46 Stat. 527; 16 U.S.C. 576.

[illegible]

Forced to Base Rates Due to Deficit.

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

REGION 0 5
STATE 0 6
ACRES IN SALE 507
BID DATE 03/ 07/ 83/
SALVAGE N
CONT. NO. 17-051769

FOREST Tahoe 1 7
COUNTY 0 9 1
STATUS 1
PRICING METHOD 3
CONTRACT FORM 2400 6

DISTRICT (OR AREA) 5 6
SALE NUMBER 0 1 2
SALE NAME NICHOLS
LEGAL DISCRIPTION T.19&20N., R.14E., M.D.M.
SBA SET-ASIDE N
PLAN'D SAD COL $ 257,011
CONTRACTING OFFICER S

APP. BASE PERIOD 4 - 8 2
TERM. DATE 03/ 31/ 87/
METHOD OF SALE A

QTR.-FY 2 - 8 3 (QTR. YEAR)
COMPARTMENT
ZONE 1
CONTRACT DATE 03/08/83/
REG. 36CFR221 6

SPECIES	SPEC CODE	PROD UNIT	VOLUME	ADVER-TISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP-JP	150	1-1	2,340	20.04	20.04	20.04	61.00	41.05	20.04	20.04	20.04						
SP-WWP	117	1-1	480	20.04	20.04	20.04	61.00	41.05	20.04	20.04	20.04						
WF-RF	025	1-1	9,970	20.04	69.06	72.24	61.00	41.05	20.04	20.04	20.04						
LP	108	1-1	NOM.	11.04	11.04	11.04	11.04	11.04	11.04	11.04	11.04						
IC	081	1-1	360	20.04	69.22	72.40	61.00	41.05	20.04	20.04	20.04						
					3057c												
TOTAL/AVER.		1-1	13,150	20.04	58.55	61.05											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Bohemia, Inc.	L		802,807.50
2	Fibreboard Corp. (L-P)	L		802,150.00
3	Sierra Pacific Industries	L		539,807.50
4	American Forest Products Co.	L		263,526.00
5	Erickson Lbr. Co.	S		263,526.00
6	Siller Bros., Inc.	N		263,526.00
7				
8				
9				
10				
11				
12				

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Claudie deCordova

TITLE Supvry Resource Assistant

DATE 3/8/83

REMARKS

$881,181.500
in deficit
bid prem

DISTRIBUTION: Orig. and 1cc to RO (orig. to RO), 1cc to RO of SBA

APPRAISAL SUMMARY

SALE NAME	SUMMARY CHECKED BY	DATE
NICHOLS	AWU	7-17-83

CARD TYPE 5

SPECIFIED RD. CONST. (Miles) 0.2 0 — RECONSTRUCTION (Miles) 6.7 — PURCH. CR./LIM. $ 3 2,8 7 0

PRODUCT: APPRAISED TO: HAUL MILES: (33-35) — TEMP. RD. CONST. (Miles) — — — TEMP. RD. COST $ — — — — — — —

01 Loyalton, CA. 20 — BASIC DATA PERIOD: CY 1981 — ADJ. TO (APPR. BASE PERIOD) 1/

CARD TYPE 7

	CARD TYPE 5							UNIT OF MEASURE
1. Product Unit	1-1	1-1	1-1	1-1	1-1			1 16
2. Species	150	117	025	108	081			TOTAL OR AVERAGE
3. Species Code	PP-JP	SP-WWP	WF-RF	LP	IC			
4. % By Species	17.8%	3.7%	75.8%	0 %	2.7%	%	%	T 100.0%
5. Volume	2340	480	9970	NOM	360			T 13,150 17-23
6. Selling Value (L.T.) XXXX Adj.	310.62	301.16	154.61	157.75	214.04			A 189.35
7. Overrun Factor %	1.010	1.050	1.198	1.178	1.129			
8. Chip and Bark Value (L.S.)	29.02	29.02	29.02	29.02	29.02			
9.								
10. SELLING VALUE L.S. 26-31	342.75	345.24	214.24	214.85	270.67			A 243.43
11. Falling and Bucking								A 14.06 24-28
12. Skidding and Loading								A 34.01 29-33
13.								— 34-38
14. SUBTOTAL, stump-to-truck								48.07
15. Haul								A 26.06 39-42
16. Road maintenance (Includes $0.69 Surface Replacement Deposit)								A 9.41 43-46
17. SUBTOTAL, transportation								35.47
18. General logging overhead								A 21.97 47-50
19. Cost to Waive 3rd Party Scaling								2.04 51-54
20. SUBTOTAL, administrative								24.01
21. Slash disposal								A 0.59 55-58
22. Erosion control								A .51 59-62
23. Snag disposal								A — 63-66
24. Required Slash Deposit BD(031)								0.45 67-70
25. SUBTOTAL, Environ. Protection								1.55
26. Temporary roads								A — 71-74
27. Other temporary developments								A — 75-78
28. SUBTOTAL, temporary development								—
29. SUBTOTAL, logging costs	109.10	109.10	109.10	109.10	109.10			A 109.10
30. Specified road costs (A10)	2.50	2.50	2.50	2.50	2.50			A 2.50
31. TOTAL LOGGING COST L.S.	111.60	111.60	111.60	111.60	111.60			A 111.60
32. Mfg. cost L.T.	151.26	158.41	117.57	151.26	112.58			A 124.92
33. Chip&Bark Mfg. Cost+Yield Tax	19.61	17.99	10.70	9.08	14.75			
34. MFG. COST L.S.	172.38	184.32	151.55	187.26	141.85			A 156.19
35. TOTAL PRODUCTION COST L.S.	283.98	295.92	263.15	298.86	253.45			A 267.79
36. CONVERSION (10)-(35)	58.77	49.32	-48.91	-84.01	17.22			A -24.35
37. P&R ratio % Normal Advertised	11	11	10	10	12			N 10.24 Adv -20.1
38. P&R margin Normal Advertised	33.72	33.97	19.25	19.30	28.73			N 22.62 -44.39
39. Indicated Net Stumpage (36)-(38)	25.05	15.35	-68.16	-103.31	-11.51			A -46.97 x V2 Nme
40. Indicated Advertised rates (39)+(20)								T -584,838.80
	27.55	17.85	-65.66	-100.81	-9.01			A -44.47
41. Base rates	20.04	20.04	20.04	11.04	20.04			A 20.04
42. Adjustments to Base Rates	N/A	N/A	N/A	N/A	N/A			A
43. Advertised rates (40)+(42)								T 263,526.00
62-67	20.04	20.04	20.04	11.04	20.04			A 20.04
44. Indicated stat. net rates (43)-(30)	17.54	17.54	17.54	8.54	17.54			A 17.54
45. Appraised net rates*	20.04	20.04	20.04	11.04	20.04			A 20.04
46. Base indices	294.89	400.09	164.31	160.62	xx			—
								—
Yield Tax	13.77	12.15	4.86	3.24	8.91			—

*Adjusted if needed to not less than base rate (line 41), using the line 42 price line.
Note: Lines 39, 40, 43-45 include planned SAP collections as authorized by 46 Stat. 527; 16 U.S.C. 576.

GP 0 863-185

1/ All species, 4th quarter 1982 WWPA;

$$\% \text{ Norm. Profit} = \frac{-44.39}{22.62} \times 100 = -196.2\%$$

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

REGION 05
STATE 06
ACRES IN SALE 1,157
FOREST Tahoe 17
COUNTY 091
DISTRICT (OR AREA) 53
SALE NUMBER 014
QTR.-FY 2 - 83
SALE NAME PRIDE
LEGAL DESCRIPTION T20N, R12&13E, MDM
COMPARTMENT
BID DATE 03/ 31/ 83/
SALVAGE N
CONT. NO. 17-051801
STATUS 1
PRICING METHOD 3
CONTRACT FORM 2400 6
SBA SET-ASIDE N
PLAN'D SAB COL $ 445,590
CONTRACTING OFFICER S
APP. BASE PERIOD 4 - 8 2
TERM. DATE 03/ 31/ 88/
METHOD OF SALE A
ZONE 1
CONTRACT DATE 04/ 08/83/
REG. 36CFR223 6

SPECIES	SPEC CODE	PROD UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP-JP	150	1-1	220	18.90	18.90	18.90	18.90	18.90									
SP-WWP	117	1-1	790	18.90	18.90	18.90	18.90	18.90									
WF-RF	025	1-1	19,450	18.90	34.49	43.60	43.55	18.90									
DF	205	1-1	Nom.	18.90	18.90	18.90	18.90	18.90									
IC	081	1-1	Nom.	18.90	18.90	18.90	18.90	18.90									
MH	164	1-1	Unest.	9.90	9.90	9.90	9.90	9.90									
LP	108	1-1	210	9.90	9.90	9.90	9.90	9.90									
TOTAL AVER.		1-1	20,670	18.81	33.48	42.05											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Sierra Pacific Industries	L		869,173.50
2	Siller Bros., Inc.	N		868,140.00
3	Bohemia, Inc.	L		388,773.00
4				
5				
6				
7				
8				
9				
10				
11				
12				

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Jordie deCordova
TITLE Supvry Resource Assistant
DATE 4/5/83

REMARKS

DISTRIBUTION: Orig. and 1cc to RO (orig. to RO), 1cc to RO of SBA

APPRAISAL SUMMARY

SALE NAME PRIDE
SUMMARY CHECKED BY AWU
DATE 2/14/83

CARD TYPE 5

SPECIFIED RD. CONST. (Miles) 2.1
RECONSTRUCTION (Miles) 3.3
PURCH. CR. LIM. $ 177,193
PRODUCT: APPRAISED TO: HAUL MILES: (33-35)
TEMP. RD. CONST. (Miles) .1
TEMP. RD. COST $ 2,806
01 SPI - Sloat 30
BASIC DATA PERIOD: CY 1981
ADJ. TO (APPR. BASE PERIOD) *

	CARD TYPE 4							CARD TYPE 7	
								UNIT OF MEASURE	
1. Product Unit	1-1	1-1	1-1	1-1	1-1	1-1	1-1	1	
2. Species	HP-JP	SP-WWP	WF-RF	DF	IC	LP	MH	TOTAL OR AVERAGE	
3. Species Code	150	117	025	205	081	108	164		
4. % By Species	1	4	94	NOM.	NOM.	1	UNEST.	100.0%	
5. Volume	220	790	19,450	NOM.	NOM.	210	UNEST.	20,670	
6. Selling Value (L.T.) (XXX ADJ.	339.09	351.63	157.28	205.97	214.04	157.75	--	166.65	
7.									
8. Overrun Factor	.987	1.029	1.206	1.209	1.129	1.178	--		
9. Chip & Bark Value	29.02	29.02	29.02	29.02	29.02	29.02	--	29.02	
10. SELLING VALUE L.S.	363.70	390.85	218.70	278.04	270.67	214.85	--	226.78	
11. Falling and Bucking								13.16	
12. Skidding and Loading								27.58	
13.									
14. SUBTOTAL, stump-to-truck								40.74	
15. Haul								30.47	
16. Road maintenance (Includes $0.42/MBF MAIN. DEP. + $0.97/MBF SURFACE REP. DEP.)								2.40	
17. SUBTOTAL, transportation								32.87	
18. General logging overhead Road Construction Overhead $0.86/MBF								26.96	
19. Protection of Improvements								.10	
20. SUBTOTAL, administrative								27.06	
21. Slash disposal								1.41	
22. Erosion control								0.53	
23. Snag disposal								0	
24. Required Slash Dep. (BD-030)								0.30	
25. SUBTOTAL, Environ. Protection								2.24	
26. Temporary roads								.14	
27. Other temporary developments								0	
28. SUBTOTAL, temporary developments								.14	
29. SUBTOTAL, logging costs	103.05	103.05	103.05	103.05	103.05	103.05	103.05	103.05	
30. Specified road costs (A/B)	8.57	8.57	8.57	8.57	8.57	8.57	8.57	8.57	
31. TOTAL LOGGING COST L.S.	111.62	111.62	111.62	111.62	111.62	111.62	111.62	111.62	
32. Mfg. cost L.T.	151.26	158.41	117.57	109.87	112.58	151.26		119.83	
33. Chip & Bark + Yield Tax 1/	18.95	18.54	10.43	10.70	14.75	9.08		10.82	
34. MFG. COST L.S.	168.24	181.54	152.22	143.53	141.85	187.26		153.87	
35. TOTAL PRODUCTION COST L.S.	279.86	293.16	263.84	255.15	253.47	298.88		265.49	
36. CONVERSION (10)-(35)	83.84	97.69	-45.14	22.88	17.20	-84.03		-38.70	
37. P&R ratio % Normal Advertised	11	11	10	10	12	10		9.7	-28.04
38. P&R margin Normal Advertised	35.19	37.88	19.10	24.49	28.08	18.75		19.99	-57.51
39. Indicated Net Stumpage (36)-(38)	48.65	59.81	-64.24	-1.61	-10.88	-102.78		-58.69	
40. Indicated Advertised rates (39)+(30)	57.22	68.38	-55.67	6.96	-2.30	-94.21		-1,035,957 -50.12	
41. Base rates	18.90	18.90	18.90	18.90	18.90	9.90	9.90	18.81	
42. Adjustments to Base Rate								N/A	
43. Advertised rates (40)+(42)	[illegible]	18.90	18.90	18.90	18.90	9.90	[illegible]	233,[illegible] ~~18.81~~	
44. Indicated stat. net rates (43)-(30)	10.[illegible]	[illegible].33	10.33	10.[illegible]	10.[illegible]	[illegible]	1.33	10.24	
45. Appraised net rates *	18.90	[illegible]	18.90	18.90	18.90	9.90	9.90	18.81	
46. Base indices	294.89	400.09	[illegible]	[illegible]9.84	XX	160.62	160.62		
1/Yield Tax	13.11	12.70	4.59	[illegible]	8.91	3.24			
* All Species 4th Qtr. 1982									

*Adjusted if needed to not less than base rate (line 41), using the line 42 procedure.
Note: Lines 37, 40, 43-45 include planned BAR collections as authorized by 40 Stat. 327; 16 U.S.C. 576.

GP 0 853-185

$$\% \text{ Norm. Profit} \quad \frac{-57.51}{19.99} \times 100$$

= -287.7%

III

2400-17

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSH 2490)

REGION 0 5
STATE 0 6
ACRES IN SALE 1680
BID DATE 02/ 22/ 83/
SALVAGE N
CONT. NO. 050950

FOREST Shasta-Trinity 1 8
COUNTY 1 0 5
STATUS 5
PRICING METHOD 3
CONTRACT FORM 2400 6

DISTRICT (OR AREA) 5 2
SALE NUMBER 0 1 8
SALE NAME Glen Marie
LEGAL DESCRIPTION T1S R7&8E, T2S R7&8E HM
SBA SET-ASIDE N
PLAN'D SAR COL $ 508,099
CONTRACTING OFFICER S
APP. BASE PERIOD 3 -8 2
TERM. DATE 03/ 31/ 88/
METHOD OF SALE A

QTR.-FY
COMPARTMENT
ZONE 1
CONTRACT DATE / / /
REG. INCREASE 6

SPECIES	SPEC CODE	MEAS. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP/JP	122	1-1	610	16.32			190.64	184.60	156.05	154.39	18.32	16.35	16.32	16.32	16.32		
SP/WWP	117	1-1	3190.	16.32			190.64	184.60	156.05	154.39	18.32	16.35	16.32	16.32	16.32		
WF/RF	015	1-1	3690	16.32			190.64	184.60	156.05	154.39	18.32	16.35	16.32	16.32	16.32		
DF	205	1-1	7540	16.32			190.64	184.60	156.05	154.39	18.32	16.35	16.32	16.32	16.32		
IC	081	1-1	30	16.32			190.64	184.60	156.05	154.39	18.32	16.35	16.32	16.32	16.32		
TOTAL/AVER.		1-1	15,060	16.32	173.77	191.24											

1172.90

SUMMARY OF BIDDERS

RANK	NAME	L or S	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Diamond International	L		$2,880,000.00
2	Sierra Pacific Ind.	L		2,871,000.00
3	Louisiana Pacific	L		2,780,000.00
4	Russell Logging	S		2,350,000.00
5	Nevada Skylines	S		2,325,000.00
6	Waggoner Logging	S		275,899.20
7	Eel River Sawmills	S		246,231.00
8	Roseburg Lumber Co.	L		245,779.20
9	Schmidbauer Lumber Co.	S		245,779.20
10	Siller Brothers	S		245,779.20
11				
12				

DISTRIBUTION: Orig. and 1cc to RO (orig. to RO), 1cc to RO of SBA

I certify that I have personally examined the bids submitted for this sale and that this is an accurate record thereof.

Signature

TITLE Supervisory Resource Specialist

DATE 3/2/83

REMARKS

	PP	SP	WF	DF
1.	9.30	27.60	xx	xx
2.	13.77	13.60	1.77	5.11
3.	11.50	6.75	98.23	37.68
4.	xx	xx	xx	57.21
5.	65.44	52.05	xx	xx

Status 5 due to Bid Protest by Louisiana-Pacific Corp. Award withheld pending resolution of protest. Rates not yet distributed by high bidd

APPRAISAL SUMMARY

SALE NAME GLEN-MARIE | SUMMARY CHECKED BY DS | DATE 12/16/82

CARD TYPE 5

SPECIFIED RD. CONST. (Miles) 5.5 | RECONSTRUCTION (Miles) 1.0 | PURCH. CR. LIM. $ 263073

PRODUCT: 01 | APPRAISED TO: Hayfork | HAUL MILES: (33-35) 45 | TEMP. RD. CONST. (Miles) 1 | TEMP. RD. COST $ 900

BASIC DATA PERIOD: CY 1981 | ADJ. TO (APPR. BASE PERIOD) 3/82

CARD TYPE 7

	CARD TYPE 6							UNIT OF MEASURE
1. Product Unit	1-1	1-1	1-1	1-1	1-1			1
2. Species	PP/JP	SP/WWP	WF/RF	DF	IC			TOTAL OR AVERAGE
3. Species Code	122	117	015	205	081			
4. % By Species	4.1 %	21.2 %	24.5 %	50.1 %	0.1 %	%	%	T 100.0%
5. Volume	610	3190	3690	7540	30			T 15060
6. Selling Value (L.T.) ~~Xhnk~~ Adj.	346.76	423.40	152.42	211.84	221.28			A 247.58
7. Lumber Halu L.T.	5.81	5.81	5.81	6.60	5.81			
8. Overrun % Factor	0.992	1.017	1.204	1.191	1.129			
9. Chip & Bark Value L.S.	21.14	21.14	21.14	21.14	21.14			
10. SELLING VALUE L.S.	359.36	445.83	197.66	265.58	264.41			A 290.91
11. Falling and Bucking								A 12.17 24-28
12. Skidding and Loading								A 30.25 29-33
13.								0.00 34-38
14. SUBTOTAL, stump-to-truck								42.42
15. Haul								A 49.54 39-42
16. Road maintenance		(Deferred Maintenance: $1.72/MBF)						A 9.25 43-46
17. SUBTOTAL, transportation								58.79
18. General logging overhead								A 27.76 47-50
19. Depreciation	(Depreciation $1.23; Bureau Scaling $2.04)							0.00 51-54
20. SUBTOTAL, administrative								27.76
21. Slash disposal								A 0.31 55-58
22. Erosion control								A 1.03 59-62
23. Snag disposal								A 0.31 63-66
24. Required Deposits			(BD-015)					6.09 67-70
25. SUBTOTAL, Environ. Protection								7.74
26. Temporary roads								A 0.06 71-74
27. Other temporary developments								A 0.00 75-78
28. SUBTOTAL, temporary development								0.06
29. SUBTOTAL, logging costs								A 136.77
30. Specified road costs (A17)								A 17.47
31. TOTAL LOGGING COST L.S.								A 154.24
32. Mfg. cost L.T.	151.26	158.41	117.57	109.87	112.58			A 123.72
33. Chip & Bakr: Tax L.S.	21.81	24.26	12.47	17.67	15.18			
34. MFG. COST L.S.	171.86	185.36	154.02	148.53	142.28			A 158.61
35. TOTAL PRODUCTION COST L.S.	326.10	339.60	308.26	302.77	296.52			A 312.85
36. CONVERSION (10)-(35)	33.26	106.23	-110.60	-37.19	-32.11			A -19.89
37. P&R ratio % Normal Advertised	11	11	10	10	12			%10.26 | Adj.-14.00
38. P&R margin Normal Advertised	33.88	42.45	16.38	22.56	26.46			$25.73 | Adj.-36.21
39. Indicated Net Stumpage (36)-(38)	-.62	63.78	-126.98	-59.75	-58.57			A -47.66
40. Indicated Advertised rates (39)+(32)								T -454,650.10
	16.85	81.25	-109.51	-42.28	-41.10			A -30.19
41. Base rates	16.32	16.32	16.32	16.32	16.32			A 16.32
42. Adjustments to Base Rates								A
43. Advertised rates (40)+(42)								T 245,779.20
	16.32	16.32	16.32	16.32	16.32			A 16.32
44. Indicated min. net rates (43)-(30)	-1.15	-1.15	-1.15	-1.15	-1.15			A -1.15
45. Appraised net rates*	16.32	16.32	16.32	16.32	16.32			A 16.32
46. Base indices	300.68	402.73	168.97	173.34	xx			
Timber Yield Tax	15.53	17.93	6.19	11.39	8.90			

*Adjusted if needed to not less than base rate (line 41), using the line 42 procedure.
Note: Lines 39, 40, 43-45 include planned SAR collections as authorized by 40 Stat. 527; 16 U.S.C. 576.

GP 0 868-185

2400-17

USDA - FOREST SERVICE

REPORT OF TIMBER SALE
CONVERTIBLE AND NONCONVERTIBLE PRODUCTS
(REF. FSM 2490)

REGION 0 5	FOREST Shasta-Trinity 1 4	DISTRICT (OR AREA) 6 1	SALE NUMBER 0 2 0
STATE 0 6	COUNTY 0 9 3	SALE NAME Hambone	QTR.-FY 2 - 8 3
ACRES IN SALE 4000		LEGAL DESCRIPTION T40N R2&3E, T41N R2&3E MDM	COMPARTMENT
BID DATE 03/ 17/ 83/	STATUS 1	SBA SET-ASIDE N	APP. BASE PERIOD 4 - 8 2
SALVAGE N	PRICING METHOD 3	PLAN'D SAR COL $ 317,105	TERM. DATE 03 / 31 / 85/
CONT. NO. 052026	CONTRACT FORM 2400 6	CONTRACTING OFFICER S	METHOD OF SALE A
		ZONE 1	CONTRACT DATE 03 / 23/83 /
			REG. MCF(?) 6

SPECIES	SPEC. CODE	PROD. UNIT	VOLUME	ADVERTISED RATES $	STAT. HIGH BID $	HIGH BIDDER $	2ND HIGH BIDDER $	3RD HIGH BIDDER $	4TH HIGH BIDDER $	5TH HIGH BIDDER $	6TH HIGH BIDDER $	7TH HIGH BIDDER $	8TH HIGH BIDDER $	9TH HIGH BIDDER $	10TH HIGH BIDDER $	11TH HIGH BIDDER $	12TH HIGH BIDDER $
PP/JP	122	1-1	2700	13.89	13.89	13.89	73.30	14.30	13.90	13.89	13.89	13.89	13.89	13.89			
SP/WWP	117	1-1	200	13.89	13.89	13.89	73.30	14.30	13.90	13.89	13.89	13.89	13.89	13.89			
WF/RF	025	1-1	2700	13.89	133.13	133.13	73.30	14.30	13.90	13.89	13.89	13.89	13.89	13.89			
DF	205	1-1	300	13.89	66.65	66.65	73.30	14.30	13.90	13.89	13.89	13.89	13.89	13.89			
IC	081	1-1	100	13.89	133.13	133.13	73.30	14.30	13.90	13.89	13.89	13.89	13.89	13.89			
LP	108	1-1	200	4.89	85.09	85.09	25.80	5.03	4.89	4.89	4.89	4.89	4.89	4.89			
KP	103	1-1	Nom.	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00			
TOTAL/AVER.		1-1	6200	13.60	72.59	72.59											

SUMMARY OF BIDDERS

RANK	NAME	SBA CLASS	IDENTIFICATION NUMBER	TOTAL VALUE OF BID
HIGH 1	Roseburg Lumber Company	L		$450,000.00
2	Fibreboard Corp.	L		445,000.00
3	Jon Eilts	W		86,800.00
4	Bill Rice	W		84,382.00
5	Petrey Logging	W		84,318.00
6	Hanan Brothers	W		84,318.00
7	Gregory Timber Resources	S		84,318.00
8	Sierra Pacific Industries	L		84,318.00
9	North State Timber	H		84,318.00
10				
11				
12				

I certify that I have personally examined the Bids submitted for this sale and that this is an accurate record thereof.

Signature Agnes Hill

TITLE Supervisory Contract Examiner

DATE 3/28/83

REMARKS

	PP	SP	WF	DF
1.	0.61	0.00	0.61	2.16
2.	0.51	0.00	1.30	2.83
3.	6.82	9.44	98.09	61.51
4.	xx	xx	xx	33.50
5.	92.05	90.56	xx	xx

Actual Bid Value = $450,058.00

DISTRIBUTION: Orig. and 1cc to RO (orig. in BU), 1cc to HU of SUA

APPRAISAL SUMMARY

SALE NAME Hambone Timber Sale
CHECKED BY J. F. Bowles
DATE 1/31/83

CARD TYPE 5

SPECIFIED RD. CONST. (Miles) - 0
RECONSTRUCTION (Miles) 0.0
PURCH. CR. LIM. $ - - - - - - 0
PRODUCT: 1
APPRAISED TO: Mt. Shasta
HAUL MILES: (33-35) 38
TEMP. RD. CONST. (Miles) 3.2
TEMP. RD. COST $ - - - 7440
BASIC DATA PERIOD: 1981
ADJ. TO (APPR. BASE PERIOD) All 4th Qtr.
CARD TYPE / 82

		CARD TYPE 6							UNIT OF MEASURE
1. Product Unit	14-15	1-1	1-1	1-1	1-1	1-1	1-1	1-1	16
2. Species		PP/JP	SP/	WF/RF	DF	IC	LP	KP	TOTAL OR AVERAGE
3. Species Code	16-18	11/12	13	31/32	01	51	15	24	
4. % By Species		43.7 %	3.2 %	43.5 %	4.8 %	1.6 %	3.2 %	0.0 %	T 100.0%
5. Volume	19-23	2700	200	2700	300	100	200	NOM.	T 6200 17-23
6. Selling Value (L.T.) Unadj.		299.57	346.32	175.21	230.60	283.80	178.31	178.31	A 239.42
7. Adjustment Factor		0.8452	0.8620	0.8458	0.8185	0.7542	0.8847	0.8847	
8. Overrun Factor		1.079	1.026	1.122	1.268	1.129	1.178	1.178	
9. Chips & Bark Value, LS		29.02	29.02	29.02	29.02	29.02	29.02	29.02	
10. SELLING VALUE L.S.	29-31	302.22	335.31	195.29	268.35	270.67	214.85	214.85	A 251.75
11. Falling and Bucking									A 17.54 24-28
12. Skidding and Loading									A 47.88 29-33
13.									XX 34-38
14. SUBTOTAL, stump-to-truck									65.42
15. Haul									A 38.90 39-42
16. Road maintenance		(Deferred $6.93: Routine $3.79: Dust $4.48)							A 15.20 43-46
17. SUBTOTAL, transportation									54.10
18. General logging overhead									A 26.10 47-50
19. Third Party Scaling		($2.04)							51-54
20. SUBTOTAL, administrative									26.10
21. Slash disposal									A 1.40 55-58
22. Erosion control									A 0.98 59-62
23. Snag disposal									A 0.01 63-66
24. BD-031									10.59 67-70
25. SUBTOTAL, Environ. Protection									12.98
26. Temporary roads									A 1.20 71-74
27. Other temporary developments									A XX 75-79
28. SUBTOTAL, temporary development									1.20
29. SUBTOTAL, logging costs	32-36	159.80	159.80	159.80	159.80	159.80	159.80	159.80	A 159.80
30. Specified road costs (A/0)									A 0.00
31. TOTAL LOGGING COST L.S.		159.80	159.80	159.80	159.80	159.80	159.80	159.80	A 159.80
32. Mfg. cost L.T.		151.26	158.41	117.57	109.87	112.58	151.26	151.26	A 134.19
33. Chip & Bark & YT*LS		15.76	19.61	10.97	11.51	15.56	8.68	8.68	xx
34. MFG. COST L.S.	37-41	178.97	182.14	142.88	150.83	142.66	186.86	186.86	A 161.66
35. TOTAL PRODUCTION COST L.S.		338.77	341.94	302.68	310.63	302.46	346.66	346.66	A 321.46
36. CONVERSION (10)-(35)		-36.55	-6.63	-107.39	-42.28	-31.79	-131.81	-131.81	A -69.71
37. P&R ratio % Normal Advertised		11	11	10	10	12	10	10	10.60 -36.60
38. P&R margin Normal Advertised		29.95	33.23	17.75	24.40	29.00	19.53	19.53	24.12 -83.31
39. Indicated Net Stumpage (36)-(38)		-66.50	-39.86	-125.14	-66.68	-60.79	-151.34	-151.34	A -93.82
40. Indicated Advertised rates (39)+(30)									-581,751.00
		-66.50	-39.86	-125.14	-66.68	-60.79	-151.34	-151.34	A -93.82
41. Base rates		13.89	13.89	13.89	13.89	13.89	4.89	1.00	A 13.60
42. Adjustments to Base Rates		80.39	53.75	139.03	80.57	74.68	156.23	152.34	A 0.00
43. Advertised rates (40)+(42)	43-47								84,318.00
		13.89	13.89	13.89	13.89	13.89	4.89	1.00	A 13.60
44. Indicated stat. net rates (43)-(30)*		13.89	13.89	13.89	13.89	13.89	4.89	1.00	A 13.60
45. Appraised net rates*	48-52	13.89	13.89	13.89	13.89	13.89	4.89	1.00	A 13.60
46. Base indices		294.89	400.09	164.31	169.84	xx	160.62	xx	
Timber Yield Tax		9.92	13.77	5.13	5.67	9.72	2.84	2.84	

*Adjusted if needed to not less than base rate (line 41), using the line 42 procedure.
Note: Lines 39, 40, 43-45 include planned SAR collections as authorized by 46 Stat. 527; 16 U.S.C. 576.

Senator METZENBAUM. Mr. Gates.

STATEMENT OF ROBERT GATES, FORESTER, ON BEHALF OF THE SIERRA TIMBER PRODUCTS, INC.

Mr. GATES. Mr. Chairman, my name is Robert Gates. I am a professional forester and operate Gates & Sons, a forestry consulting business in Grass Valley, Calif.

I am here today at the request of the Sierra Timber Products, Inc., a client of mine in Gardnerville, Nev. We provide forestry services for Sierra Timber and others, including bidding on Federal Forest Service timber sales. Sierra Timber Products is a family-owned sawmill and remanufacturing plant and is the only one of its kind in the State of Nevada.

This mill was purchased by its current owners in 1975 and presently employs 40 people. The annual cut is 12 to 15 million board feet. About 3 million feet per year comes from Federal, State, and private lands in Nevada, and the balance from Federal lands in California.

From 1975 until the present, Sierra Timber Products has had difficulty in obtaining the timber it needs to maintain its operations. They have had to compete with other manufacturers in the area, both large and small, and sometimes have been forced to pay prices that are questionably uneconomical. All of these sales under contract will be operated. Sierra Timber does not intend to default and is not asking for a bailout of any kind.

This company has approximately 37 million board feet of Federal and State timber under contract in individual sales of 9 million feet or less. Some of this timber is high priced but careful bidding also provided some that is lower priced, and they believe that by careful and prudent management they can live with the average price.

There is no mystery as to how this was achieved. Many other companies observed good bidding management. Speculative bidding forced everyone to pay high prices, but not everyone participated in a destructive way. This speculation resulted in the disruption of an orderly process in the timber industry, and a bailout for those who caused it will simply guarantee that this speculation and destruction will continue.

Sierra Timber Products opposes S. 916 in its entirety as it violates the principles of our private enterprise system. It would bailout those who caused this problem in the first place and encourage them to continue the same practices in the future. The negative effect of this bailout would be felt far beyond the timber industry, however. The taxpayer would be saddled with an additional burden and would receive no benefits.

Passage of this bill would also result in a loss of faith and respect for our system and for those who have been elected to carry the responsibility of maintaining it in a sound manner.

I thank you.

[The prepared statement of Mr. Gates follows:]

Testimony of: Robert Gates

Representing: Sierra Timber Products, Inc.
P. O. Box 1297
Gardnerville, Nevada 89401

Before the
Subcommittee on Public Lands and Reserved Water, Committee on Energy and Natural Resources

United States Senate

May 9, 1983

My name is Robert Gates. I am a professional forester and operate Gates and Sons, a forestry consulting business in Grass Valley, California. I am here today at the request of Sierra Timber Products, Incorporated, a client of mine in Gardnerville, Nevada. We provide forestry services for Sierra Timber and others, including bidding on federal timber sales.

Sierra Timber Products is a family-owned sawmill and remanufacturing plant and is the only one of its kind in the state of Nevada. This mill was purchased by its current owners in 1975 and presently employs 40 people. The annual cut is 12 to 15 million board feet. About three million feet per year comes from federal, state and private lands in Nevada, and the balance from federal lands in California.

From 1975 until the present, Sierra Timber Products has had difficulty in obtaining the timber needed to maintain its operations. They have had to compete with other manufacturers in the area, both large and small, and sometimes have been forced to pay prices that are economically questionable. All of these sales under contract will be operated: Sierra Timber does not intend to default, and is not asking for a bailout of any kind.

This company has approximately 37 million board feet of federal and state timber under contract, in individual sales of 9 million feet or less. Some of this timber is high priced, but careful bidding also provided some that is lower priced and they believe that by careful and prudent management, they can live with the average price.

There is no mystery to how this was achieved. Many other companies observed good bidding management. Speculative bidding forced everyone to pay high prices, but not everyone participated in a destructive way. This speculation resulted in the disruption of an orderly process in the timber industry and a bailout for those who caused it will simply guarantee this speculation, and disruption, will continue.

Sierra Timber Products opposes S. 916 in its entirety as it violates the principles of our private enterprise system. It would bail out those who caused this problem in the first place and encourage them to continue the same practices in the future.

The negative effect of this bailout would be felt far beyond the timber industry, however.

The taxpayer would be saddled with an additional burden, and would receive no benefits.

Passage of this bill also would result in a loss of faith and respect for our system and for those who have been elected to carry the responsibility of maintaining it in a sound manner.

Senator **Metzenbaum**. Thank you. Mr. Cheek, would you care to address yourself to the issue of road credits in this bill?

Mr. **Cheek**. Sure. I don't think that road credits really have any relationship to termination in the bill. It was put in for the reason that Mr. Hall explained—in order to get more support for that aspect of it, but I think I would like to add something to what he said rather eloquently about road credits.

My company and quite a few others operate on their own land as well as on Forest Service land, and the best practice is to build a road of as low a standard as you can in order to perform what you are trying to do. In other words, if all you want to do is get the timber off the land and you want to regenerate timber on that land, then you will build a road that does the least–I am going to say damage, I guess the least damage to the timber-growing property of that land.

Now a very high standard road, one that is excessive to the needs of what is going on, is, obviously, going to be much more expensive than a low standard road and is not going to contribute to the future productivity of that land.

Now many of the roads that are being built and that generate purchaser credits are far too high a standard for the need, and just for harvesting the timber. The Forest Service has other reasons to build these roads, and it builds the roads at the expense of the timber industry.

Now we have no objection to paying a fair price for whatever it is that we are getting, but we don't agree, and I think that the industry is pretty well 100 percent agreed on this, we don't agree that we should have to finance roads that are built by the Forest Service for purposes beyond those that we are involved with, so we favor the purchaser credit provision.

I think this is the wrong place for it. I think it should be coupled with discussions on the road standards, and I think that there ought to be some hearings that explain the whole thing, Senator.

Senator **Metzenbaum**. Mr. Gates, would you pretty much agree with Mr. Cheek on that?

Mr. **Gates**. I believe so.

Senator **Metzenbaum**. How about you, Mr. Heyrend?

Mr. **Heyrend**. I agree with him.

Senator **Metzenbaum**. Let me ask you, Mr. Heyrend, I have these exhibits that you submitted which will be included as part of the record. Let me ask you if I am reading them correctly.

The first one indicates that the advertised bid rates are $22.53, and that the high bidder was $116.33. Am I reading it correctly?

Mr. **Heyrend**. That's right. Yes.

Senator **Metzenbaum**. Which is almost 500 percent of the advertised figure.

The second one advertised a rate of $10, and the high bidder is $54.97. Is that correct?

Mr. **Heyrend**. That's right.

Senator **METZENBAUM**. And the third one is an advertised rate of $11.40. The high bidder is $169.

Mr. **HEYREND**. That's right.

Senator **METZENBAUM**. All of these pretty much represent the same kind of bidding, way over the rates that have been advertised.

Mr. **HEYREND**. Right.

Senator **METZENBAUM**. Some of the same players are to be found here—Roseburg Lumber Co., Diamond International, Sierra Pacific, Nevada Skyline, Louisiana-Pacific, Roseburg Lumber, Seiler Bros., Trane Mills, Sierra Pacific, Susanville Forest Products, Seiler Bros., Louisiana Pacific. It looks to me as if the same people who are in here asking for relief are pretty much the high bidders or bidding up the appraised value these days.

Let me ask you a question, Mr. Heyrend. How long have you been in business?

Mr. **HEYREND**. Thirty years, for myself.

Senator **METZENBAUM**. In the 30 years you have been in business how many people have let you off of a contract that you entered into?

Mr. **HEYREND**. Not one.

Senator **METZENBAUM**. How about you, Mr. Cheek? How many people, how many times have you entered into a contract where either you let the other side off or they let you off?

Mr. **CHEEK**. I can't think of any, Senator.

Senator **METZENBAUM**. And Mr. Gates, are you familiar with any contracts in which either you have been a consultant or you have been involved as a forester yourself or as a part of the company in which you have been let off the contract or you have let somebody else off the hook?

Mr. **GATES**. No. A contract generally is just what it means. It is a contract. It is generally expected to be lived up to.

Senator **METZENBAUM**. In the American economic system, a contract is a contract is a contract.

Mr. **GATES**. I don't see how the system can operate otherwise.

Senator **METZENBAUM**. Unless you come to your rich uncle and ask him to let you off the contract as this bill would do, is that right?

Mr. **GATES**. You are going to your neighbor, aren't you?

Senator **METZENBAUM**. I thank you very much, gentlemen. I very much appreciate your testimony.

Our next panel is the last panel—Dan Goldy of Western Forest Industries Association, Portland, Oreg., and Jim Geisinger, representing J. A. Taylor Lumber Co., Sheridan, Oreg.

Let me just put into the record the fact that I have a piece of paper in front of me that a staff member of the committee gave me indicating it was received from John Hall, one of our earlier witnesses, and it reads as follows:

> In checking with Forest Service sources, I have received the following estimates: $36 million in ineffective purchaser credits has been earned to date under existing contracts. Up to $71 million additional was estimated to be potentially ineffective purchaser credits under existing contracts (the exact amount will depend on the value of the timber at the time of harvest). This is due to the escalator clause in most of the contracts, including ineffective purchaser credits.
>
> Signed, John Hall.

Did I read it all right?

Mr. **Hall**. You did quite well with my handwriting. Thank you.

Senator **Metzenbaum**. Thank you very much. And now we will hear from Mr. Goldy and then Mr. Geisinger.

STATEMENT OF DANIEL L. GOLDY, CONSULTING ECONOMIST, WESTERN FOREST INDUSTRIES ASSOCIATION

Mr. **Goldy**. Senator, I am Daniel L. Goldy. I am a consulting economist, and I am the economist for the Western Forest Industries Association.

Western Forest Industries Association is the largest organization of small independent lumber and plywood manufacturers in the Western States. We have about 100 members. Our members produce a very significant part of the total lumber produced in the country.

The organization, the association, was organized in 1947 and it was organized to prevent a few larger operators from monopolizing Government timber. It was organized basically to insist that there be freedom of competition for Government timber.

Now I want to say one other thing about our members. In most cases—not all, but in most cases, our members operate sawmills or plywood mills that are the sole support of the community in which they operate. Sometimes there may be two or three mills, but basically these operate in timber-dependent communities.

Senator **Metzenbaum**. What would you guess the average volume is, the average number of employees?

Mr. **Goldy**. Of these mills, all our members have less than 500 employees. There may be one that has more, but I don't think so, and the volume, I would guess the average volume of the mills would be around 50, 60 million, although we have a few that may produce, a couple of them, although small, produce as much as 150 million feet.

I would like to tell you a word about myself, although you and I have met before. I have been on both sides of the industry fence and the Government fence. Back in the Truman administration I was the regional administrator of the Bureau of Land Management and its O&C Administrator which meant that I administered 2.7 million acres of prime timber land which had reverted to the Government from the Oregon & California Railroad.

I introduced many of the new procedures that opened timber to competitive bidding, and therefore, I have a valid view of what is regarded as intemperate or wild speculative bidding that I might talk about.

In addition, just to bring you up to date, during the Kennedy and Johnson administrations I served as the White House Coordinator for Export Expansion and Director of a Cabinet Committee on International Trade. My last Government service was in Oregon as the director of economic development for Governor Straub, and in that capacity I had intimate and direct contact and knowledge of the struggles of the forest products industry to survive in a timber-short environment and the potential impact on the communities if they didn't make it.

Let me just say that the Western Forest Industries Association whom I am representing here today, and may I just parenthetically say that I am doing this from notes but I would like if it is agreeable to the committee to submit a more complete written statement after my testimony.

Senator METZENBAUM. We will be glad to receive it.

Mr. GOLDY. Thank you, sir. The Western Forest Industries Association supports Senate bill 916. We are convinced that unless there is some reasonable form of relief from timber contracts entered into during the period when homebuilding was running roughly at a 2 million or better annual starts rate, a substantial number of our members will be forced to default and will probably be forced into bankruptcy.

In that connection, I want to say I have read Mr. Cheek's testimony and Mr. Harrison's at the meeting of this committee, the hearing of this committee a week ago Friday, and I thoroughly disagree with statements from my own experience that were made in their testimony that all we are arguing about is who owns the mills, that the mills will continue to operate in these communities whether or not there is relief.

In the timber situation that exists in the west today, that is just not so. If a mill defaults or goes down, it disappears, and before—it has to, because the problem has been timber shortage. I am going to come back to that and tell you what the Government told the industry which led to some of the bidding that everyone has been concerned about.

What will happen is that mills disappear, and what other mills do, the big ones, the largest companies who will survive, will tend to absorb that timber supply. Maybe they will have to run in two shifts or three shifts at the mills they have, but the communities that are dependent on the mills that are owned by our members, those communities are going to go out of existence. Their sole source of support in most instances will be eliminated.

Now in our view, and as the committee has heard in testimony, the prime problem we are addressing here is the result of changed economic circumstances. Senator, I hope that if you haven't had the opportunity to date that you will read carefully the testimony of Harry Pryde, president of the National Association of Home Builders, who testified before this committee a week ago Friday. He pointed out that basically the problem is that the demand side—I will talk about the supply side-timber in a minute—but the demand side of the equation changed dramatically due to the fact that the Government changed economic circumstances. This administration deliberately set out to cut back on homebuilding, and did it with a variety of means, so the Government basically, which has a virtual monopoly on timber supply in the west, controls both sides of the equation; they control the supply side through the fact that they have virtually all the timber and they control the demand side when they in fact adopt monetary fiscal policies and other policies which cut back on timber.

That, incidentally, was no accident. They had a theory that they would help reindustrialization if they would eliminate or cut back on homebuilding. It hasn't helped reindustrialization, but they sure succeeded in cutting back on homebuilding.

Now a word about the timber-supply end—I said that the industry responded to the Government. Until last year, the Government's policy was to exact the highest possible price that they could get for timber, and it had a variety of ways of doing it. When I administered timber, I was part of that. As a matter of fact, there was a cartoon on the front page of the Oregon Journal, one of our statewide newspapers, back in the days when I was regional administrator, and it showed a logging show, and it was labeled, "Pure Gold—ie," and it reported, the story was how I had gotten the timber, the timber appraisals up 300 percent to get the Government more for its money by opening it up to competition.

Well, what happened was in 1980 President Carter sent up to the Congress an RPA assessment of timber supply and timber demand in the United States. That assessment showed that we were going to have—and this assumed that home building would continue, that the economy would continue to function as it had in the past—it showed that there would be a timber shortage of 15.9 billion feet a year by 1990, and in the RPA assessment it said the supply-demand gap would be made up by inflation in price, and that the inflation in price would provide the equilibrium required for supply and demand.

[The prepared statement of Mr. Goldy follows:]

TESTIMONY
of
DANIEL L. GOLDY
on behalf of
Western Forest Industries Association
before the
Senate Subcommittee on Public Lands
Washington, D.C.
May 9, 1983

I am Daniel L. Goldy, a consulting economist from Portland, Oregon, here representing the Western Forest Industries Association (WFIA). WFIA is the largest organization of small independent lumber and plywood producers in the western states. Our approximately one hundred members produce about 3-4 billion feet of lumber, a significant amount of the national total. In most cases, their plants are the sole--or one of only two or three--economic supports for an entire community. WFIA was organized in 1947 to prevent a few large operators from monopolizing government timber.

I am familiar with the issues addressed by these bills not only from the standpoint of the small independent producers but also from the standpoint of the government. During the Truman Administration, I worked as a Deputy Assistant Secretary of the Interior and than as Regional Administrator of the BLM in the Pacific Northwest. The Regional Administrator of BLM also served as O & C Administrator for 2.7 million acres of prime timberlands which had reverted to the government from the old Oregon and California Railroad.

I came back into government during the Kennedy/Johnson Administration serving as the first Deputy Administrator of the Area Redevelopment Administration and later as the White House Coordinator for Export Expansion and as Executive Director of a Cabinet Committee on International Trade. My last government service was as Director of Economic Development for Oregon under Governor Robert Straub, 1976-79.

WFIA supports S. 916. Unless there is some reasonable form of relief from timber contracts entered into in a period when homebuilding was running at a rate of 2 million starts per year, a substantial number of our members will be forced to default--and will probably be forced into bankruptcy.

As this Committee has heard in testimony, most of the problem is the result of "changed economic circumstances." If Senator Metzenbaum has not had the opportunity to do so yet, I would urge him to read the testimony of Harry Pryde, President of the National Association of Home Builders. He pointed out that the depression in homebuilding was the result of deliberate government decisions to target monetary growth, restrict credit, raise interest rates, etc. Government policy was to divert capital flows from homebuilding to re-industrialization. This misguided policy succeeded in killing off homebuilding but did nothing for re-industrialization.

The forest products industry has been accused of engaging in wild speculative and imprudent bidding and, it is argued, should be forced to face the consequences of its behavior. This is a distorted and inaccurate view of what occurred. The 1980 RPA Assessment, prepared by the Department of Agriculture and sent to the Congress by President Carter, forecasts a growing softwood timber shortage rising to 15.8 billion feet a year by 1990. The actual situation was worse because the RPA assumed more lumber would be imported from Canada than would be available given the failure to reforest cut-over lands.

The point to note is that the RPA Assessment concluded that equilibrium would be achieved between supply and demand through price inflation. The price increase forecast for Pacific Northwest timber was, I believe, 266% by 1990. Thus, the industry was told by the government that a serious shortage would exist in timber supplies and that the consequences would be a very large inflation in prices.

The basic government policy up until last year was to use its monopoly position in timber supply to exact the maximum return possible in stumpage prices. This was demonstrated in several ways. It shorted the timber supply by not selling the full potential harvest or the full allowable cut. It temporarily installed sealed bids in an effort to get even wilder bidding above the appraisals. When bid prices in an area did not exceed appraised prices by a "sufficient" amount, antitrust investigators were sent in to find out why. The roadless area controversy was allowed to fester unresolved--in the meantime withholding from harvest thousands of acres of commercial timber recommended in the RARE II studies for multiple use management. Also, the U.S. Forest Service has known of a major loophole in the legislative prohibition against substitution of government timber for private timber that is exported (called third party substitution) but it chose not to plug this loophole because foreign demand for logs is a major factor in boosting prices of timber in the U.S.

Last year (1982), the federal government changed its policies. The U.S. Forest Service adopted nine regulations changes designed to discourage overbidding for timber. The basic thrust was to require more cash flow outlays: bigger down payments, bigger surety bonds, mid-point payments, etc. This approach doesn't affect the bigs but is tough on the smalls. The most important change, indexation, will undoubtedly dampen speculative bidding. It was due to go into effect April 15, 1983--and is slated now to go into effect July 1. The other eight changes have had no visible effect on bidding, and some, like discount bidding, may have been counter-productive.

Some concern has been expressed by Senator Mark Hatfield and others about a possible return to excessive bidding. In this connection, it should be recognized that because so much of the timber under contract is economically inoperable, there is currently a severe timber shortage. When lumber prices rose swiftly in January many mills that were closed or were on part-time cranked up again and desperately needed logs. Many loggers, and even some operators, believed what Administration officials were saying about homebuilding rising rapidly to the 1.7 million starts level and that it would bring the U.S. out of the recession.

But after the initial panic buying in January, lumber prices dropped back almost to their former lows. There have been some price increases in the past week, but unless there is dramatic improvement in lumber prices soon, some of the mills that re-opened will close again. Timber that has recently been purchased at prices far below the $300 to $500 levels may also prove to be inopera-

Goldy
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p.3

ble. And, contrary to what Messrs. Harrison and Cheek have testified to, the average pricee bid for Forest Service timber during April in Oregon and Washington dropped from $128 in March to $124 in April.

In summary, this is a situation where the federal government virtually controls the supply of timber and the demand for lumber. It is federal government actions that created the intense difficulties the industry is experiencing today. The federal government has both a responsibility and a major economic stake in correcting this problem.

We support S. 916. We are aware that other suggestions are being made to resolve the problem. We welcome the proposal of the Department of Agriculture for a buy-out arrangement. But the 18% penalty suggested in Assistant Secretary Crowell's proposed, but undelivered, testimony would place an impossible cash burden on the small independent companies. If the percentage were low enough, a buy-out would be painful but not impossible for most companies.

Another idea being circulated by some of the large companies has been termed a "metering in" procedure--a ten year timber contract extension with 10% of the contract price due every year. The big companies could finance this by cutting heavily on their private fee timber, but it would not work for small companies who do not have much fee timber and lack large financial reserves.

The states of Oregon, Washington and California have enacted legislation for timber contract relief. Their legislatures and governors have faced the same problems and dilemnas now confronting the Congress. I urge you to review what they have done. You may wish to follow their examples.

The Roosevelt Administration, when faced with depression conditions in the forest products industry in the 1930's, obtained authority from the Congress to modify timber sale contracts to ensure the survival of the industry. That should also serve as a salient precedent and example.

I have noted the testimony of Mr. George Cheek, Senior Vice President of Potlach Corporation, before this Committee. He stated in his testimony, and I quote: "Even bankruptcy does not make a mill vanish; mills that are profitable will continue to operate and provide employment even if their ownership should change." As Director of Economic Development for Oregon and as the economist for a significant portion of the industry, I have personally witnessed the falsity of Mr. Cheek's statement. Given the persistent shortage of timber, mills that go bankrupt or close down because of timber problems, rarely if ever change ownerships and operate again. There has been a high degree of mortality within the industry in recent years. In cases of buy-outs, the purchasing company usually closes the purchased mill and consolidates the land and timber holdings they have acquired. What Mr. Cheek is trying to say is that the small independent mills in the West can be forced to default and into bankruptcy with no adverse consequence to the labor force or the timber dependent communities. Nothing could be further from the truth. If the companies are forced into default and bankruptcy, the real victims will be the workers and the communities who have been dependent on those companies for their livelihood. For many communities who will lose their only operating payroll, it means a devastating loss of value in homes, Main Street property, investments in infrastructure, and ultimately economic disaster for the entire community.

In most instances individual companies have avoided the temptation to gain special advantage out of the misfortunes of an entire industry. I hope the Congress will disregard those few instances where companies have opposed a solution to a very serious problem because they might benefit by having no solution.

Senator **Metzenbaum**. Let me ask you a few questions because your time has run out. Let me ask you a few questions.

If the price of timber had gone up, would the people you represent be in here saying that it is all right to increase, to pay a higher amount to the Government and abrogate the contract?

Mr. **Goldy**. No, I don't believe so.

Senator **Metzenbaum**. Of course not.

Mr. **Goldy**. They wouldn't have had to be here.

Senator **Metzenbaum**. Do you know of any contracts that you have ever been involved in where one party let the other party out of the contract?

Mr. **Goldy**. I am confident, Senator, that there are many instances in the case of forest contracts——

Senator **Metzenbaum**. I am not asking about that. I am asking have you ever been involved in a situation where you let somebody out of a contract or they let you out of a contract?

Mr. **Goldy**. When I was regional administrator of the BLM we modified contracts when it was in the interests of the Government to do so.

Senator **Metzenbaum**. You think so, but you don't remember the circumstances?

Mr. **Goldy**. That is quite a while ago, but I am certain that there have been in recent years contracts, particularly for loggers, that have been modified.

Senator **Metzenbaum**. How about not spending the Government's money, that is, letting the people out of a contract with the Government? That is what 916 proposes.

Do you know of any instances in which you personally or any of the companies you represent let somebody out of a contract one way or the other?

Mr. **Goldy**. Yes. I know of one. I know of one.

Senator **Metzenbaum**. It's so unusual that you remember that one.

Mr. **Goldy**. I negotiated the purchase of a mill and we did it so well that the fellow who sold it to us thought we had done him in so we modified the contract.

Senator **Metzenbaum**. OK, but that is one, and it is very rare, isn't it, for somebody to let somebody out of a contract in the American business system?

Mr. **Goldy**. It is rare, but I think it happens.

Senator **Metzenbaum**. Let me ask you what would you think if the Committee—you represent smaller companies?

Mr. **Goldy**. Right.

Senator METZENBAUM. I had indicated at last year's hearing that I might very well be supportive of an amendment that would provide relief for small companies that need relief but not provide it across the board as this bill does.

Would you support that kind of an amendment?

Mr. GOLDY. We couldn't support that, Senator. Let me explain why.

Senator METZENBAUM. Tell me why.

Mr. GOLDY. Basically we are all competing in a national market for lumber. We don't want, although we are small—there are many policy proposals that are out right now, including Mr. Crowell's, the one that didn't get presented officially to this committee, about a buy-out arrangement with an 18 percent in it, which we couldn't live with. That would kill us.

Some of the big companies are suggesting another arrangement where they get a 10-year extension, and that sort we couldn't live with and we don't want to get relief for us that we can't live with.

What we would like to see is equity for everybody. We are all producing for a national market. We are ready to compete freely and openly.

Senator METZENBAUM. I want you to do me a favor. How many companies are in your group?

Mr. GOLDY. A hundred approximately.

Senator METZENBAUM. I would like you to do me a favor. I would like you to write a letter to all hundred of them and say some members of the committee, because there are other members of this committee who feel as I do, and other members of the Senate who feel as I do, are prepared to consider an amendment that would give relief where relief is needed for those companies that otherwise might be facing very serious economic problems.

Would you indicate whether you would favor, whether you would be willing to accept a bill providing that relief, or whether you would want us to be against the total bill—with that amendment?

Mr. GOLDY. May I ask for clarification so I can write them a letter? I have heard a great deal of discussion here today and I have seen it in the testimony about the idea of a needs test applying.

Senator METZENBAUM. Yes.

Mr. GOLDY. And the question I have is, is that what you have in mind? Let me explain why I ask the question. Having been in the Government and having been a part of the Area Redevelopment Administration, I was its first deputy administrator, I don't think the Government at least in a broad number of cases, the regular bureaucracy, is capable of analyzing balance sheets and operating statements and administering a needs test for industry. People have cited the *Lockheed* case and the *Kaiser* case. They had to get the secretaries of the departments together and special consultants from outside, and accounting firms. You could have a reconstruction finance corporation that runs as a bank to do it, but if you are talking about the needs test, I would have to know because I think our members would be unanimous in saying no, they couldn't live with that.

Senator METZENBAUM. Mr. Goldy, so that we don't get bogged down in how we write the legislation and determine what kind of needs test it should be, I would like to suggest to you that you and Mr. Lowenstein of my staff and Tony Bevinetto of Senator Wallop's staff, the committee staff, that you try to write the kind of letter I am talking about. They understand me full well, and I think you do, too, and don't you worry about how we draft it. We will worry about that when we get to that, but I would guess that if the letter is drafted and your people know that they may get some relief and that may be the price in order to get this bill through, that they would say damned right we would like to have that relief, sure we want it. We would be willing to support the total bill but we are fighting for our economic existence.

If I were in their position, that is the position I would take. I wouldn't be worrying about Weyerhaueser and Georgia Pacific. I would be worrying about whether I could feed my family next month and keep this operation going, and I think your people would support it, and I am challenging the accuracy of your representation as to the fact that they wouldn't do it. I think you feel you have to say what you are saying because you are part of the total group, but I believe the hundred members of your group would answer in the affirmative unless you do some work on them by telephone over and above the letter.

Mr. GOLDY. Let me answer this way. I will be very glad to sit down with these gentlemen, write the letter, but the reason I say what I am saying isn't because I am a part of a group, a larger group. I am representing the Western Forestries Association here, but I will tell you, we are constantly battling for survival. We had to go out and get from this Congress a small business set-aside program so we could survive. We know that if we sought today, out of the problems of an industry that are industrywide, special advantage for our group, that the day would come, not maybe today, but maybe tomorrow or the day after tomorrow when at that point we would be wiped out because of the legislative circumstances, the policy circumstances under which we could survive would be wiped out for us. It would be open warfare.

We do not want that kind of warfare in the industry.

Senator METZENBAUM. Mr. Goldy, I just don't buy anything you say in this respect. Any small business person who is fighting for their economic existence, if they are told the bill can sail through if it has a means test, a concern about helping only those who need help and helping the smaller people in the industry, is going to say darned right we want it. We will grab for any kind of a rope when we are sinking, and I can't believe that they would have some high and mighty idea about what might happen 5 or 10 years from now.

You fight for your economic existence. That is what I did as a businessperson, and I would believe the 100 members of your group will do the same thing, and I, therefore, would like to find that out because I say to you that this bill has a very rocky road ahead of it in its present form, very rocky road ahead of it, and the joint jurisdiction here as well as in the Agriculture Committee, there are many of us who feel very strongly, both sides of the aisle, who feel strongly committed against this, but there are many of us who would be willing, and I think the administration would be willing to provide some help to those very much in need.

When you come before this committee and say I represent 100 small operators and they wouldn't want it because somehow it might have some amorphous kind of impact upon us in the future, I just don't believe that. I just don't believe it, and therefore, I would like to have the letter sent without any sales pitch made to them, just straight out in the letter saying this may be the price of getting a bill through, would you indicate whether you are for it or against it under those circumstances?

Let's go on to the last witness, Mr. Geisinger representing the M. C. Taylor Lumber Co.

STATEMENT OF JAMES GEISINGER, J. C. TAYLOR LUMBER CO.

Mr. **Geisinger**. Thank you for the opportunity to testify this afternoon. My name is Jim Geisinger, and I am a forester with WFIA [Western Forest Industries Association].

As Dan mentioned, we are a trade association comprised of approximately 100 manufacturers of lumber and plywood. I have been asked today to represent John C. Taylor Lumber Co., a small, family-owned mill in the Willamette Valley in western Oregon. Norm Siefken, the president, asked me to relay to you his disappointment in not being able to be here personally to testify. At this very moment back in Portland, Mr. Siefken is meeting with his accountants, his banker, and his bonding company representatives to explore ways to keep their company afloat. It was an appointment that had been made several weeks in advance, and he could not afford——

Senator **Metzenbaum**. We understand, and I hope when you leave this room you will say you testified and you did very well, and the Senator who happened at the moment to be conducting the hearing wants to know whether he would accept legislation that would take care of companies like yours that are threatened with going under water and not worry about the big fellows who aren't in any problems of that kind at all. Just call them and ask them.

Mr. **Geisinger**. I will do that. First, a little bit about the company. J. C. Taylor Lumber is located in Sheridan, Oreg. It is a small rural community of about 2,300 population. The firm employs 130 full-time workers in a sawmill and a pole and lumber treating plant. Mrs. Kathrine Taylor and her two daughters own the company. The firm was founded by John C. Taylor, but he passed away in the late sixties and left the company to his family.

The manufacturing facilities require approximately 27 million board feet of timber per year to operate on a one- shift basis.

Taylor Lumber Co. owns no land of its own as some of its larger business counterparts. Consequently, it is totally dependent on public forestland for a source of raw material.

Currently the company has 45 million board feet of Federal timber under contract. That is less than a 2 years' supply—quite conservative in our industry. Of this volume 30 million feet or roughly two thirds of it is priced so high that processing it would result in financial losses of so great a magnitude that the company would be forced into bankruptcy. The situation facing the Taylor Lumber Co. I must emphasize, is an example of the predicament of literally dozens of small, independently owned firms that are finding themselves in the same situation all over the Northwest.

I would like to briefly discuss how it was that Taylor Lumber Co. got itself in this situation. The company was founded in the late forties shortly after World War II. It started out as a small planning operation, and a sawmill was built in the early fifties followed by a pole and piling treatment plant in the late sixties. It has always been an efficiently managed company capable of producing a diverse portfolio of products. It prospered during the sixties and it weathered severe business cycles during that period that typically affect our industry.

The problems occurred in the last part of that decade, 1978 and 1979, when stumpage prices for Federal timber began to escalate in unprecedented proportions. Taylor found it could not purchase timber at a price that allowed profitable operations given the current market conditions at that time. The Government, on the other hand, was projecting tremendous growth in the housing industry with some estimates exceeding 2½ million starts per year by the middle of the 1980's.

At the same time, the Forest Service published the resources planning program which also documented a skyrocketing demand for wood products. Taylor scrambled to buy what little timber was available from local farmers on the open log market, but it wasn't sufficient to run the mill, so by 1980 they faced a very grim reality. They had no timber inventory. Without a reasonable inventory of raw material they found that the banks were unwilling to finance capital improvements or even to lend money for operating expenses. They faced the fact that several companies had to face at that same time that there are basically two ways to go out of business in our industry. One is to have no timber to process, and the other is to have timber that may be too costly to process.

Taylor decided that if it was going to stay in business, keep its 130 workers employed and maintain some semblance of economic stability in the town of Sheridan, it would have to do whatever was necessary to secure a supply of timber. They looked at the Government housing projections. They looked at the Forest Service forecast of demand for lumber, and they decided to bid timber sales accordingly, as did their competitors. They didn't like bidding high prices and they didn't do it by choice, but they did it as the only alternative to shutting down permanently.

As you know, those housing projections have not materialized, and in fact the market for wood products tumbled to an all-time low in 1982, but even in the face of the devastating market, Taylor continued to operate for one sole purpose, and that was to honor their existing contracts with the State of Oregon, with the Forest Service, and the Bureau of Land Management. In 1982 that obligation cost them $1 million. That was their operating loss on uneconomic timber sales.

In the fall of 1982, market conditions finally forced the company to shutdown for a period of 3 months. That was October, November, and December. During that time Mrs. Taylor went to the local school district and worked with them to identify 80 of the most desperate, financially needy individuals in that town and saw to it they didn't spend Christmas without food and clothing.

Now I am not trying to paint these people out to be saints that are going to provide for the community at all costs, but it is indicative of the type of family that we are talking about and the commitment that they have to their community that depends on them for economic sustenance. It is not unlike several other communities in that same area.

In January—excuse me. I appreciate Senator Wallop's comments about coming a long way to testify, and if I may, I will run a couple minutes overtime.

Senator METZENBAUM. Go ahead.

Mr. GEISINGER. In January, with an improvement in the market, the mill started up again. That is January 1983. This event caught so much attention that CBS Nightly News sent a crew to Sheridan in limousines that were larger than any cars that that community had ever seen.

Senator METZENBAUM. Did it help the local economy?

Mr. GEISINGER. I don't know whether they bought gasoline there or not. The crew painted a picture of euphoria in the little town as an indicator that economic recovery was around the corner. What they didn't report was that two-thirds of the company's timber inventory was priced at levels that would prohibit a break-even operation even under the best of market conditions, and they also failed to report that half of that volume had to be removed as per the contract from the woods by the end of 1983, so the situation Taylor Lumber Co. finds itself in today is tragic but it is quite simple. Of the 47 million feet they have under contract, 30 million is inoperable and of that, 15 million feet will expire this year.

If the company is forced to honor those contracts, its loss will be $3.2 million for this year, roughly three times its losses in 1982.

If they have to honor the contracts, that will surely spell the demise of that company, and I must emphasize again that dozens of small firms in the Northwest are facing decisions of similar, if not greater, magnitude.

Senate bill 916 would allow Taylor Lumber Co. and many others like it a chance to survive. It will not eliminate the liability of overpriced contracts. Losses will still have to be absorbed, but it will allow partial relief from the back-breaking effect of some of those contracts. The small, independent sector of the industry will enthusiastically participate in discussions of alternatives to Senate bill 916. However, the proposals we have seen so far are discriminating against small business. For example, the option developed by the administration regarding a buyout of contracts, of 18 percent of the existing value, will do nothing for the small business community. The small independents cannot possibly come up with large sums of money such an option would require. In fact, it would break them as surely as no relief will break them. The net result will be a dismantling of the small business community with the large, public corporations the only ones left.

Senator, there needs to be a substantial relief package, and it needs to happen quickly in order to avoid the elimination of a large portion of our sector of the industry, and while it is true that the legislation that Senator Hatfield has proposed will provide relief to large businesses and many of those need it just as desperately as we do, the fact is that without it, there will be no small businesses left, and with that, I would be happy to answer any of your questions.

[The prepared statement of Mr. Geisinger follows:]

STATEMENT OF JAMES GEISINGER
WESTERN FOREST INDUSTRIES ASSOCIATION
ON BEHALF OF
JOHN C. TAYLOR LUMBER COMPANY
IN SUPPORT OF S.916,
THE FEDERAL TIMBER CONTRACT RELIEF ACT OF 1983
BEFORE THE
SENATE ENERGY AND NATURAL RESOURCES COMMITTEE
MAY 9, 1983

Mr. Chairman and Members of the Committee:

My name is Jim Geisinger. I am a forester with Western Forest Industries Association (WFIA), a trade association comprised of nearly 100 manufacturers of lumber and plywood located throughout several western states. Our members are small, independently owned firms that rely almost exclusively on public forest lands for a supply of raw material to run their mills. I have been asked today to present testimony in support of S.916 on behalf of John C. Taylor Lumber Company, a small family owned mill located in the upper Willamette Valley in western Oregon. Norm Siefken, President of Taylor Lumber Company asked me to relay to you his disappointment in not being able to be here personally to testify on the legislation that is essential for the survival of his company. At this very moment Mr. Siefken is meeting with his accountants, bankers and bonding company exploring ways to keep the firm in business. It was an appointment he could not afford to reschedule.

Taylor Lumber Company is lcoated in Sheridan, Oregon, a rural community with a population of 2,300. The firm employs 130 full-time employees in a sawmill and a pole and lumber treating facility. Mrs. Kathrine Taylor Jones and her two daughters own the company. Mr. John C. Taylor, the founder of the firm, passed away in the late 60's leaving the firm to his family. The manufacturing facilities require approximately 27 million board feet of timber per year to operate on a one shift basis. Taylor Lumber Company owns no timber land of its own. The firm is totally dependent on public forest lands for a source of raw material. Currently, the company has 45 million board feet of federal timber under contract, less than two years supply. Of this volume, 30 million feet or roughly two-thirds is priced so high that processing it would result in financial losses of so great a magnitude that the company would be forced into bankruptcy. The situation facing Taylor Lumber Company is an example of the predicament literally dozens of small independently owned firms are finding themselves in all over the northwest.

I would like to briefly discuss how Taylor Lumber Company got into this situation.

John C. Taylor founded the company in the late 40's shortly after WWII. It started out as a small planing operation. A sawmill was built in the early 50's followed by a pole and piling treatment plant in the late 60's. It has always been an efficiently managed company capable of producing a diverse portfolio of products. It prospered during the 60's and 70's and weathered the normal business cycles that periodically affect our industry. However, in 1978 and 79, when stumpage prices for federal timber began to escalate in unprecedented proportions, Taylor found that it could not purchase timber at a price that allowed profitable operations given the existing market conditions. The government, on the other hand was projecting tremendous growth in the housing industry with some estimates exceeding 2.5 million starts per year by the middle of the 80's. Taylor scrambled to buy what little timber was available from local farmers and on the open log market. But by 1980 they faced a very grim reality. They had no timber inventory. Without a reasonable inventory of raw material they found the banks unwilling to finance capital improvements or to even lend money for operating expenses. They faced the fact that there are basically two ways to go out of business in this industry. One is to have no logs to process. The other is to have logs hat are too costly to process. Taylor decided that if it was going to stay in business, keep its 130 workers employed, and maintain some semblance of economic stability in the town of Sheridan it would have to do whatever was necessary to secure a supply of timber. They accepted the government housing projections and began to bid on federal timber sales accordingly. They didn't like bidding high prices and didn't do it by choice, but did it as the only alternative to shutting down permanently. As you know, those housing projections have not materialized and, in fact, the market for wood products tumbled to an all time low in 1982. But even in the face of the devastating market, Taylor continued to operate for the sole purpose of honoring its contractual obligations. It cost the small family owned firm $1 million in 1982. At the same time a large, publicly held firm that operates in the same area as Taylor, chose to default on four contracts rather than operate them by the due date. In the Fall of 1982 market conditions forced the company to shut down for a period of three months. During this time Mrs. Taylor worked with the local school district in identifying 80 of the most desperate, financially needy individuals in Sheridan and saw to it that they did not spend Christmas without food and clothing. That act is indicative of the commitment the Taylor family has made to the town of Sheridan.

In January, with an improvement in the market, the mill started up again. The event even caught the attention of CBS Nightly News that sent a crew to Sheridan, Oregon in limousines larger than anyone in that town had ever seen. They painted a picture of euphoria in the little town as an indicator that economic recovery was around the corner. What they didn't report was that two thirds of the company's timber inventory was priced at levels that would prohibit a break-even operation even under the best of market conditions. They also failed to report that half of that volume had to be removed from the woods by the end of 1983.

The situation Taylor Lumber Company finds itself in today is tragic but simple. Of the 47 million feet of timber it has under contract, 30 million is economically inoperable. Of that, contracts on 15 million feet will expire this year. If the company is forced to honor those contracts its loss will be a staggering $3.2 million. That will be the demise of the company. It swallowed $1 million in 1982 living up to its contracts and it cannot absorb three times that loss in 1983. I must emphasize, again, that dozens of small firms in the northwest are facing decisions of similar if not greater magnitude.

S.916 would allow Taylor Lumber Company and many others like it a chance to survive. It will not eliminate the liability of over priced contracts, losses will still have to be absorbed. But it will allow partial relief from the back-breaking effect of some of those contracts. The small independent sector of the industry will enthusiastically participate in discussion of alternatives to S.916. However, the proposals we've seen so far are discriminating against small businesses. For example, the option developed by the Administration regarding a "buy out" of the contracts at 18% of existing contract value will do nothing for the small business community. The small independents could not possibly come up with the large sums of money such an option would require. It would break them as surely as no relief. The net result would be the dismantling of the small business community with the large public corporations the only firms left.

Likewise a proposal to allow the contracts to be paid-off over a 10 year period is not sufficient to help the small business sector. The cash drain of interest payments alone, much less payment of principal, would be intolerable to our members.

Senator, there needs to be substantial relief, quickly, in order to avoid the elimination of a large portion of the northwest's small business sector. While its true that S.916 will provide relief to large businesses as well, without it, there will be no small businesses left.

I thank you for the opportunity to present this testimony and I will be pleased to answer any questions you may have.

Senator **Metzenbaum**. Thank you, Mr. Geisinger. Speaking for your company, would your company accept a bill that is tailored to concern itself with the problems of your company and others similarly situated and to concern itself not to provide this across-the-board relief from the contractual obligations of everybody?

Mr. **Geisinger**. Unfortunately, that question didn't come up when I was talking with the management of the company and I would hesitate to answer for them.

However, I can certainly ask them to communicate their thoughts on that question.

Senator **Metzenbaum**. What would you recommend?

Mr. **Geisinger**. To them? There is no denying that they are facing survival, and I think if that was all that was available, that they would readily take it, but on the other hand, as a representative of many other firms as well, I would have to echo Mr. Goldy's comments in that all sectors of our industry, particularly in the Northwest, need some relief, whether they are large or they are small, and while some of these public corporations may be showing profits right now, I guess I would ask exactly where those profits are being generated as most of those are very diverse companies and I would guess that a large part of those profits are not coming from their lumber-producing facilities, so in answer to your question, as per this particular company, I think you know the answer to that as well as I do. When you are looking at survival and you are looking at keeping your employees employed and the community functioning, of course they will take whatever is made available to them, but on the other hand, for the good of the industry as a whole, we would urge you to reconsider your position and include all firms in some sort of relief package.

Senator **Metzenbaum**. Let me say to you that there is strong opposition to S. 916, and I don't think anybody in this room thinks that there isn't, and I would say to you that there are companies that are suffering, that are facing economic chaos, going down the drain.

As you well know, last time the bill got out of committee and it didn't get to the floor. Now it has to get through two committees. It has to get through this committee and the Agriculture Committee.

My own opinion is that if those companies that are faced with an economic challenge such as yours is want some prompt action and hope to move this legislation very rapidly, the only possibility, and I am not certain that even that will solve the problem because I think there is still some questions about it, but the only possibility is to try to come in and work with the staff of some of us who want to, who are willing to move in that direction.

Absent that, I think that the bill faces a rather rugged and certainly torturous and long, drawn-out legislative road ahead of it.

With that, I have really no further questions, but I would say that my door is open to people such as you, people such as Mr. Goldy, Mr. Goldy's clients, to try to work out a piece of legislation, to work with you to see if we can't fashion such a proposal.

I understand that that would not be acceptable to some of the companies who are supporting this legislation, maybe the loudest voices supporting it, but I think that their road would be a rather rough one. Before it is concluded they may prevail, but they may not.

Mr. GOLDY. Senator——

Senator METZENBAUM. Yes. Let me just say that, before our record is concluded, I and possibly some other members of the committee will have some written questions to submit to the Forest Service as well as to some of the other witnesses who have been before this committee today as well as on earlier days. I was unable to attend the earlier hearing because I had a long-standing commitment to be with one of my daughters in California that day, but I have a strong interest in this legislation as I indicated in the last session of Congress, and I continue to have an interest.

I am happy to say that I picked up some others who are on the other side of the aisle from the one that I sit on who have indicated that they also have great concerns about this bill.

Mr. GOLDY. Senator, before we adjourn and go away, may I have just a minute to comment on an issue that I know has come up? It was raised here. You raised it with the previous witness today, and I know it is a matter of concern to the members of the committee, and that is the issue of speculative bidding.

I will furnish in my testimony, the written part, a lot of the points that I wanted to make as to where it came from, where those $300, $400, $500 bids came from, but what I wanted to do is just bring you up to date as to what is happening right now, and I know a lot of Senators are concerned about that.

What has actually happened was that in January when the first signs of a pick-up in housing starts came, lumber prices went soaring. They went up in 1 week, they went up over a hundred dollars, and I want to give you the benchmarks if I may, and what happened was that a lot of companies that had closed down their mills entirely or were working short time decided that now is the time to get back into the business because the administration proclaimed the end of the recession, that housing starts were picking up, that percentages looked awfully good.

They weren't economists. They didn't look at seasonal adjustment factors and other factors, so they decided that the turn had come, and there was a scarcity of timber and scarcity of logs.

In addition, with all of this timber that is inoperable because of the price, that was bid into $300, $400, $500, the actual situation is that we have a timber shortage if companies want to crank up and produce lumber. That is why the home builders are so concerned about this problem.

Let me give you what the benchmarks were on lumber itself. In January when the prices went up, there was a kind of an inventory panic. They found—the Canadians weren't sure that the Commerce Department wouldn't rule them out and the prices, the composite price, and this is for dimensional, 2 by 4's, 2 by 6's, 2 by 8's, 2 by 10, 2 by 12's went up to $278, 1 week later it had dropped. That was the high in January, but a week later it dropped back to $236.50. As of April 29, which is almost current, it had dropped down to $189.89. The lowest point that it has gotten to during the depths of recession was $144 on October 8, 1982. The highest, the previous high of the composite index was on August 31, 1979, when it was $355, so what has happened is that a lot of companies came in thinking because the timber price went up to that $278 composite level and then when the fact was that the housing starts weren't as strong as the initial figures that had been put out by the administration made it appear, the prices came down, and they are down to only a little higher than at the very low now, and the situation is that at this point of lumber prices, whether you just add up the arithmetic and $189 lumber, that is the composite price for dimensional lumber, people can't take $300 timber out in the woods and make it into $189.00 lumber without going broke.

Now what happened also is this. You get these wild percentages that you read off of 500 percent bids above the appraised price. What happened when the price went up suddenly was that the Forest Service index didn't catch it right away. It takes a while. It takes about a quarter for the Forest Service index to catch these shifts in price, so what was happening is that the Forest Service appraisals were going down but the demand for timber in logs was going up in anticipation of this big increase in housing starts and in actual increase in lumber.

Senator METZENBAUM. You are telling me what happens in the business world every day of the week. You buy your stocks on Wall Street. Sometimes you pay a certain amount and the price goes down. You are stuck with it. That's your contract. Sometimes you pay a low price. Sometimes you sell it short, and what I don't understand is American businessmen coming in to this meeting and saying Mr. Government, let us out of our contracts. We made a bad deal.

I never had that happen to me. I lived with it when I made a bad deal and I sweated with it, and I met my obligations and why should you come in here and ask the Government—you wouldn't have the audacity if Weyerhaeuser made a bad deal with Georgia Pacific, neither one would have the audacity to ask the other one to let them out.

Mr. GOLDY. Senator, these figures really relate to your question as to whether or not the industry got scared because of what transpired in this committee, and all of a sudden in the month of April modified its behavior.

The percentages changed because the economic circumstances changed, but in answer to your other question, as we have testified, the Government changed the basic economic circumstances, and this is an industry that is basically in partnership with the Government.

Senator METZENBAUM. Economic conditions always change, always change. They are going to keep changing, and that is a part of the way it is, but we don't let people out of contracts just because the Government policies change, at least to the best of my knowledge. I don't remember any instances in which they have.

That concludes the hearing for today. I thank you very much. My door is open to the small operators and those who need relief.

[Whereupon, at 4:40 p.m., the hearing was adjourned.]

APPENDIXES

APPENDIX I

Responses From the Forest Service to Additional Questions Submitted by Senator Metzenbaum

(UNLESS OTHERWISE NOTED, THE TERM VALUE MEANS THE BID VALUE, EXPRESSED IN BOTH TOTAL DOLLARS AND ON A PER THOUSAND BOARD FEET BASIS.)

(ALSO, UNLESS OTHERWISE NOTED, ALL QUESTIONS PERTAIN TO CONTRACTS OVER TWO MILLION BOARD FEET IN REGIONS ONE, FIVE, SIX-EAST AND SIX-WEST.)

1. What is the total volume and value of all uncut federal timber under contract?
2. By firm, indentify the top 20 holders of uncut timber under contract, including the volume and value of such timber on a firm by firm basis.
3. What is the total volume and value of timber under contracts that have been extended?
4. Indentify the top twenty firms that have received contract extension based on both total volume and value of timber held.
5. What is the total volume and value of timber under contracts due to expire by December 31, 1983? Identify which firms hold these contracts, including the volume and value of such contracts on a firm by firm basis.
6. For the top twenty firms that have received contract extension, how much federal timber do they hold under contract and what percentage is that of their total timber owned?

7. Please provide the names of all firms holding federal timber contracts that have gone out of business in 1980-81-82 and to date in 1983. Please provide the volume and value of federal timber they held at the time of bankruptcy, including the appraised value and bid value of each contract held.

8. Please indentify any companies holding federal timber contracts that you believe would be in imminent danger of bankruptcy if contract relief is not granted? Please provide the basis for this conclusion, including all relevant financial information and bidding records.

9. What is the total dollar value of all ineffective road credits?

10. By region, show the twenty firms holding the largest amount of ineffective road credits, including the amounts for each firm.

10. Please provide an estimate as to the impact of activating these credits on future Forest Service sales. Specifically, how will their activation affect revenues generated by the timber sale program.

11. For the ten largest holders of uncut timber (both in terms of volume and value) in California, Oregon, Washington, Idaho and Montana and the four largest in Alaska, show the following on a contract by contract basis for each firm:

a. Total uncut volume
b. Appraised value when offered
c. Bid value when bought
d. Current value, if different due to stumpage rate adjustment
e. Appraised value, if same sale were appraised in first quarter, 1983
f. Difference between appraised value now and current value under contract terms

12. For all contracts that have been extended, please show the costs that would have been incurred by firms on each contract if payment had been required at full contract value at time of extension carried

through to date, and show the costs incurred under the Comptroller General's 1982 ruling that only interest had to be paid on uncut timber value.

13. For all firms holding uncut timber under contract, please show the average value, both in dollars and on a per Mbf basis, for all contracts. Further, show how much is held at $0-100 per Mbf, how much is held at $100-200 per Mbf, how much is held at $200-300 per Mbf, how much is held at $300-400 per Mbf and how much is held at $400-up.

14. For the top 20 firms holding uncut timber both in terms of volume and value, please show the effect of stumpage rate adjustment on each contract.

DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON, D. C. 20250

JUN 17 1983

Honorable Malcolm Wallop
United States Senate
Washington, DC 20510

Dear Senator Wallop:

Here are the responses to the 14 questions asked by Senator Metzenbaum regarding S. 916 as requested in your May 9 letter.

Answers respond to your request for information on sales over 2 million board feet as of January 1, 1983, except where otherwise noted. Bid values are expressed in nominal dollars. These data are for National Forest timber sales in the following States or portions of States: California, Oregon, Washington, and northern Idaho.

1983 JUN 23 AM 8 57

The information does not identify specific firms. Rather, a number has been assigned to each firm which is then used to identify that firm in all cases where it would appear. This has been done to avoid disclosure of data regarding the firm's financial and operational status. We believe that revealing such data is inappropriate.

The information was derived from information available to or maintained by the Forest Service for the ongoing National Forest System timber sale program. If you have questions concerning the responses, we would be happy to discuss them with you.

Sincerely,

John B. Crowell Jr.

JOHN B. CROWELL, JR.
Assistant Secretary for
Natural Resources and Environment

Enclosure

1. Q. What is the total volume and value of all uncut Federal timber under contract?

   A. The total volume and value of uncut National Forest timber under contract as of January 1, 1983, in California, Oregon, Washington, and northern Idaho for sales of 2 million board feet or more was:

      Total Volume: 25,969 million board feet(MMbf)
      Total Value: $5,425,000,000
      Average Stumpage Rate: $208.90 per thousand board feet (Mbf)

   The Bureau of Land Management has informed us that the total volume and and value of uncut public land timber in western Oregon was:

      Total Volume: 3,483 million board feet (MMbf)
      Total Value: $850,000,000
      Average Stumpage Rate: $244 per thousand board feet (Mbf)

2. Q. By firm, identify the top 20 holders of uncut timber under contract, including the volume and value of such timber on a firm by firm basis.

   A. Top 20 holders of uncut National Forest timber under contract in California, Oregon, Washington, and northern Idaho are as follows:

Firm Number	Volume (MMbf)	Value (Million $)
86	1504.0	$ 212.5
476	1177.0	253.7
8	1061.2	186.4
119	1025.2	312.4
35	838.3	169.0
12	817.4	183.9
369	598.1	184.8
36	520.9	74.4
171	466.3	129.4
483	423.3	72.8
358	412.3	53.1
92	404.4	84.2
113	389.4	88.6
109	376.2	104.5
110	366.3	18.6
3	357.2	46.8
20	313.4	100.1
409	291.2	93.1
30	276.5	34.2
161	276.5	77.4
Total	11,895.1	$2,479.9

Average value = $209/Mbf

3. Q. What is the total volume and value of timber under contracts that have been extended?

A. The total volume and value of National Forest timber under extended contracts in California, Oregon, Washington and northern Idaho is as follows:

Total Volume = 3,370.0 (MMbf)
Total Value = $650,100,000 *
Average Stumpage Value = $192.91/Mbf

4. Q. Identify the top 20 firms that have received contract extensions based on both total volume and value of timber held.

A. Following are the top 20 firms granted Forest Service contract extensions for the volume and values shown:

Firm Number	Volume (MMbf)	Value * (Million $)
86	171.5	$ 25.0
171	109.4	25.0
476	103.4	18.3
35	85.3	9.1
12	82.1	19.2
369	72.7	13.8
357	71.4	4.3
119	71.1	25.5
8	67.8	13.0
100	64.6	15.2
321	64.4	18.9
62	62.8	14.7
483	54.2	6.1
113	54.1	10.2
499	47.1	5.4
541	46.2	8.5
92	43.5	11.6
236	43.2	12.6
29	42.8	3.2
317	42.2	10.1
Total	1,399.8	$ 269.7

Average Stumpage Value = $193/Mbf
* Bid Value

5. Q. What is the total volume and value of timber under contracts due to expire by December 31, 1983? Identify which firms hold these contracts, including the volume and value of such contracts on a firm by firm basis.

A. Total volume of National Forest timber under contracts currently due to expire in California, Oregon, Washington and northern Idaho by December 31, 1983, is 5,057.5 Million board feet. Timber value was $1,093,300,000 ($216.17/Mbf). The following table lists volume and value of these contracts for the top 20 firms for contracts currently due to expire by 12/31/83:

Firm Number	Volume (MMbf)	Value (Million $)
86	254.8	$ 36.3
119	215.2	63.2
476	206.9	32.4
8	181.4	42.3
35	137.9	23.3
369	118.5	35.7
483	101.5	17.0
92	94.0	22.5
12	89.9	20.7
36	89.5	17.8
113	83.9	23.1
409	83.8	28.8
358	81.1	10.8
100	76.4	16.4
236	74.6	22.5
317	67.3	14.3
316	64.3	19.8
30	63.6	8.1
3	57.5	5.2
171	53.0	14.5
Totals	2,195.1	$474.7

Average Stumpage Value = $216/Mbf

6. Q. For the top 20 firms that have received contract extensions, how much Federal timber do they hold under contract and what percentage is that of their total timber owned?

A. We do not know the percentage of Federal timber held by the top 20 firms in relation to their total timber owned. We have no information on the extent of any firm's timber holdings. Volume and value of National Forest timber under contract in California, Oregon, Washington and northern Idaho held by the top 20 firms, subject to the qualification made earlier, are shown in the response to question 4.

7. Q. Please provide the names of all firms holding Federal timber contracts that have gone out of business in 1980-81-82 and to date in 1983. Please provide the volume and value of Federal timber they held at the time of bankruptcy, including the appraised value and bid value of each contract held.

A. We recently were notified by court authorities that Mazama Timber Company, a southwest Oregon firm, has filed for dissolution. This action is so current that we are now in the process of compiling accurate information for the courts as to our claims against the company. Because of this present legal action, we do not feel that it is appropriate to provide information on such values.

We know of no other firms that have gone out of business through the bankruptcy process in the 1980 to present period. Several have filed under Chapter 11 to resolve their financial problems. Others have sold out and their successors in interest now hold the timber sale contracts.

8. Q. Please identify any companies holding Federal timber contracts that you believe would be in imminent danger of bankruptcy if contract relief is not granted? Please provide the basis for this conclusion, including all relevant financial information and bidding records.

A. We do not have available to us sufficient information to make an informed judgment as to a firm's financial soundness. Furthermore, we do not believe it appropriate to speculate on which firms holding Federal timber contracts are in danger of bankruptcy. Such speculation, once made public, could irreparably damage a firm's reputation and prevent it from working with its creditors to resolve its financial problems.

9. Q. What is the total dollar value of all ineffective road credits?

A. Please refer to enclosure 1. Column (a) of this table shows ineffective purchaser road credit now existing. Column (b) shows the amount of ineffective credit which will be available when all roads are completed under existing contracts. Column (c) is the amount that would become a credit under provisions of section 6 of S. 916 (lines 14-20, page 6), and represents the amounts for road construction in contracts held by small business purchasers who elect to have the Forest Service build the roads.

10. Q. By Region, show the 20 firms holding the largest amount of ineffective road credits, including the amounts for each firm.

A. Please refer to enclosure 2. This information is current as of March 31, 1983.

The amount of ineffective purchaser credit will change through time as a result of changes in forest products markets. For some sales market changes may lead to stumpage rate adjustments. The figures in this list are based on market indices available in March 1983. Since most indices are continuing to rise, the ineffective purchaser credit will be less on sales with stumpage rate adjustment. This could also change the relative ranking by firm. Only west side Region 6 figures are unaffected by stumpage rate adjustment.

Activating ineffective purchaser credit through legislation would reduce cash revenue to the Government. Or, stated another way, revenues generated by the timber sale program could be reduced by the total amount of ineffective purchaser credit on existing sales. But some other assumptions must be made for this to happen. The amount of effect would depend on other features of the proposed legislation that would permit transfer of purchaser credits from one Forest to another, and to permit transfer from one purchaser to another. Assuming that base stumpage rates would continue to be required to be paid in cash, and assuming the added flexibility for transfer of credits, companies with a good mix of deficit and nondeficit sales would recover all purchaser credit. A company holding mostly deficit sales may not be able to recover all purchaser credits unless legislation provided that they could hold this credit on the books until sufficient nondeficit timber sales were purchased to recover the credits. Such a company might also recover credits by selling them to another company which had sales with stumpage price above base rates.

10a. Q. Please provide an estimate as to the impact of activating these credits on future Forest Service sales. Specifically, how will their activation affect revenues generated by the timber sale program.

A. The effect of activating ineffective purchaser credit on new sales cannot be estimated. Since bidders would be guaranteed a cash offset in the amount of the purchaser credit limit, bid rates on deficit sales would increase. There should also be an increase in bid rates on sales involving stumpage rate adjustment, even though not advertised at a deficit, because the risks of the downward escalation of prices creating ineffective purchaser credit would be eliminated. Thus, any estimate of lost revenue due to activating ineffective purchaser credit would have to be adjusted to recognize the probable increased bid rates. Bid rates are affected by so many factors that it is impossible to isolate and predict the effect created by activating ineffective purchaser credit.

11. Q. For the ten largest holders of uncut timber (both in terms of volume and value) in California, Oregon, Washington, Idaho and Montana and the four largest in Alaska, show the following on a contract by contract basis for each firm:

a. Total uncut volume
b. Appraised value when offered
c. Bid value when bought
d. Current value, if different due to stumpage range adjustment
e. Appraised value, if same sale were appraised in first quarter, 1983
f. Difference between appraised value now and current value under contract terms

A. Please refer to enclosure 3. The data does not include that for Montana or for the four largest sale holders in Alaska. Our original data base (that used to compile responses to these questions) involved timber sales only in Oregon, Washington, California, and northern Idaho. We have requested the data to correspond to the other four States. We expect to receive this information by June 15 and will forward it promptly upon receipt.

For the data shown in the enclosure, the column headed "Volume" is the total uncut volume by contract and responds to item (a), the column headed "Stat Bid" is the statistical high bid (which excludes road construction costs) and responds to item (c), the remaining columns identify the contract and its location. The data for items (b) and (e) cannot be provided in the form requested. Appraised value is determined only as a step in the individual sale preparation process and is not retained in the data base for future compilation. To retrieve this statistic would require examining the original sale preparation work on a contract-by-contract basis. Instead, the advertised value is used to reflect the value of timber to be offered for sale. Thus, we propose to substitute advertised value for appraised value in item (b). These values are being compiled for each contract held by the ten largest holders of uncut timber in the four States and Alaska. Data for item (d), pertaining to current contract values, is also not available in the original data base. We are compiling this information along with that for item (b).

To respond to item (e) would require a complete reappraisal of the individual contract using current appraisal data. Since there are nearly 1,000 separate contracts in the list comprising the response, about 3,000 person-hours of work using computer programs would be required to generate the needed data. Instead, we recommend use of advertised values to which would apply adjustment factors (indices) to derive an approximation of value if the sale were advertised in the first quarter of calendar year 1983.

To approximate the comparable advertised value per Mbf for the first calendar quarter of 1983, multiply the advertised rate for any sale in enclosure 3 by the decimal equivalent of the percentages for the calendar quarter in which the sale was sold.

Year and Quarter- Sold	Region 6, West side	Region 6, East side Region 5 and N. Idaho
1978 first quarter	35%	77%
1978 second quarter	34%	64%
1978 third quarter	39%	62%
1978 fourth quarter	34%	67%
1979 first quarter	31%	63%
1979 second quarter	33%	62%
1979 third quarter	34%	60%
1979 fourth quarter	32%	67%
1980 first quarter	35%	91%
1980 second quarter	63%	127%
1980 third quarter	46%	120%
1980 fourth quarter	40%	112%
1981 first quarter	38%	88%
1981 second quarter	42%	96%
1981 third quarter	44%	107%
1981 fourth quarter	78%	121%
1982 first quarter	103%	133%
1982 second quarter	188%	192%
1982 third quarter	281%	255%
1982 fourth quarter	254%	166%

Item (f) can be derived by determining the difference between item (e) and item (d) on an individual sale basis.

All data missing for question 11 is expected by June 15 and will be forwarded promptly thereafter.

12. Q. For all contracts that have been extended, please show the costs that would have been incurred by firms on each contract if payment had been required at full contract value at the time of extension carried through to date, and show the costs incurred under the Comptroller General's 1982 ruling that only interest had to be paid on uncut timber value.

A. Enclosure 4 is a listing by firm showing total volume and value at time of extension for all contracts extended. This is the same as the data for question 4 with the addition of firms below the top 20 firms. We are unable to provide from our data base this information by individual contract.

There are no costs incurred by the Government resulting from the Comptroller General's opinion. The cost of delayed payment was offset by interest from the time payments when called for in the contracts.

The 1982 Comptroller General opinion was in regard to our authority to delay extension deposits as called for in contract language. Our timber sale contracts do not provide for payment of remaining value at date of extension. Older contracts call for extension deposits each month through the final operating season which will total the remaining value of the sale by the end of the last operating season. To help industry through the difficult economic situation in 1982, we proposed to allow deferral of these extension deposits until sale operations actually began. The Comptroller General was asked for an opinion on this proposal and determined that deposits could be deferred if interest was charged for the time of deferral. Contracts were modified, upon request of purchasers, to provide this cash flow relief.

Timber sales sold since April 15, 1982, have a different procedure for payments in extension periods. On these newer sales, extension deposits are still required during the normal operating season, but interest is charged on the total remaining value from the date of extension.

13. Q. For all firms holding uncut timber under contract, please show the average value, both in dollars and on a per Mbf basis, for all contracts, Further, show how much is held at $0-100 per Mbf, how much is held at $100-200 per Mbf, how much is held at $200-300 per Mbf, how much is held at $300-400 per Mbf and how much is held at $400-up.

A. The value of all uncut timber under contract (sales over two million board feet as of 1/1/83) was $5,425,000,000. Average value was 209 $/Mbf. The following table shows the distribution of these volumes at 0-99, 100-199, 200-299, 300-399, and 400-up dollars per Mbf.

Firm size (Number of Employees)	Stumpage Price in Dollars per Thousand Board Feet					
	>$400	$300- $399	$200- $299	$100- $199	<$100	Total
	(Volume in Million Board Feet)					
0-25	454.2	514.3	709.8	925.1	1001.9	3605.3
26-100	268.1	320.0	321.3	527.7	416.0	1853.1
101-250	452.6	695.9	794.5	934.9	856.1	3734.0
251-500	779.7	941.1	1002.7	965.6	875.0	4564.1
501-750	104.3	112.7	131.4	144.4	109.4	602.2
751-1000	23.6	35.9	24.3	16.3	.0	100.1
>1000	1817.0	2097.6	2567.0	2631.2	2397.5	11510.1
Totals	3,899.5	4,717.7	5,551.0	6,145.1	5,655.8	25,968.9

14. Q. For the top 20 firms holding uncut timber both in terms of volume and value, please show the effect of stumpage rate adjustment on each contract.

A. The "effect" of stumpage rate adjustment (SRA) can only be described in general terms, or in specific terms of a single contract, given the index on which appraised and given the particular quarter in which the effect is to be displayed. To do this on each contract for the top 20 firms would involve computations on more than 2,000 contracts.

Most of the volume under contract was appraised at or near the peak of the market from 1978 through 1980. When the lumber price indices began to drop, SRA resulted in downward adjustment from the bid rates, establishing the new current contract value. Many contract rates fell to base rates in 1981 and 1982. (Base rates are the minimum rates at which timber may be sold on an individual sale and include deposits for Knutsen-Vandenburg Act activities. Base rates must be paid in cash.) As rates fell to or near base rates, purchaser credits became ineffective. When earned purchaser credits became ineffective, or were used to cover cash needs above base rates, or were transferred to other sales, the purchaser had to replace those credits with cash when paying for additional timber on the sale. Purchasers were billed for replacement of these credits at a time when cash flow was a critical problem.

At the beginning of 1983, lumber price indices began to rise again, resulting in increases in stumpage rates and thereby resulting in road credits again becoming effective in part or total.

The upper limit of the rise in adjusted stumpage rates is set in the contracts at 50 percent of the rise in indices over the base indices (index at time of appraisal), or the amount of the difference between base rates and bid rates, whichever is less.

As markets improve, stumpage rates will be adjusted upward each quarter. The initial increases will have little effect on purchasers' cash flow until rates rise above base rates plus purchaser credit. Ineffective purchaser credit will then become effective to offset cash needs. The higher bid sales will benefit most from this effect. Those sales which were bid at or near base rates had little or no effective purchaser credit at bid rates and the upper limit of escalation rise may never allow any or much credit to become effective. However, the low bid or base rate sales will continue at a low level as indices rise further creating a large spread between stumpage and selling values to defray road costs for the purchaser.

Enclosure 3 gives bid rates and, when supplemented, will give current contract rates. All sales on this list are under stumpage rate adjustment (SRA) except those on the west side of Region 6. By examining this data, the effect of SRA on the sales of the top 10 firms can be determined.

(ENCLOSURE 1)
(QUESTION 9)

SUMMARY OF INEFFECTIVE PURCHASER CREDIT AS OF 3/31/83 1/

Regions	(a) Amount of ineffective purchaser credit which has been earned to date on outstanding contracts	(b) Estimated amount of ineffective purchaser credit which will be earned when all roads are constructed on outstanding contracts	(c) Additional costs experienced by small business purchasers who elect Forest Service road construction	Summary-Established (a+c)	Summary-Total (b+c)
1	$8,381,164.36	$19,307,058.07	$7,762,622.57	$16,143,786.93	$27,069,680.64
2	3,347,528.44	5,955,837.70	2,991,228.23	6,338,756.67	8,947,065.93
3	3,265,570.92	6,590,791.92	1,572,184.32	4,837,755.24	8,162,976.24
4	6,215,703.47	17,788,142.61	2,678,116.74	8,893,820.21	20,466,259.35
5	1,384,611.38	10,455,023.86	2,023,100.97	3,407,712.35	12,478,124.83
6	4,197,521.82	17,910,177.02	5,029,346.43	9,226,868.25	22,939,523.45
8	85,386.58	430,608.06	---------	85,386.58	430,608.06
9	113,224.73	189,062.87	181,962.14	295,186.87	371,025.01
10	-------------	11,552,679.85	---------	----------	----------
Total	26,990,711.70	78,626,702.11	22,238,561.40	$49,229,273.10	$100,865,263.51

1/ Estimates relate to provisions of Section 6 of S. 916.

5/2/83

ENCLOSURE 2

FIRMS HOLDING INEFFECTIVE ROAD CREDITS
- AS OF 3/31/83 -

Firm Number	M Dollars
REGION 1 - Northern Idaho and Montana	
110	$ 1,459.5
640	1,113.1
144	1,111.8
625	900.5
86	898.3
20	792.1
601	317.6
639	278.9
635	244.6
636	211.6
630	154.0
609	153.4
620	143.4
634	97.3
603	76.1
606	70.5
613	50.7
619	45.1
604	36.1
608	33.5

ENCLOSURE 2

Firm Number	M Dollars
REGION 5 - California	
86	$ 442.9
476	328.6
542	137.3
627	85.7
171	65.9
628	43.6
633	30.9
538	32.6
629	24.4
119	23.3
612	20.2
631	18.2
8	17.7
436	8.5
615	8.5
542	7.1
3	1.1

(Only these firms hold ineffective purchaser credit in Region 5 as of 3/31/83)

ENCLOSURE 2

Firm Number	M Dollars
REGION 6 (Westside Forests)	
642	$ 249.7
378	186.0
92	182.0
605	141.4
368	119.0
614	98.5
641	84.6
623	60.0
89	52.2
321	49.4
622	41.8
8	34.0
621	31.3
346	20.5
617	1.7
632	1.4
611	0.7
624	0.2

(Only these firms hold ineffective purchaser credit as of 3/31/83)

Firm Number	M Dollars
REGION 6 (Eastside Forests)	
30	570.6
618	500.1
3	276.7
616	254.8
637	206.2
639	197.7
638	128.2
625	123.2
50	115.3
86	111.0
141	95.9
602	80.3
8	58.1
35	49.9
607	29.2
7	16.3
626	12.9
610	11.0

(Only these firms hold ineffective purchaser credit as of 3/31/83)

ENCLOSURE 3
(QUESTION 11)

VOLUMES ARE IN MBF, PRICES ARE IN $/MBF

86

FIRM # /SALE #	VOLUME	STAT BID	REGION *	FOREST	DISTRICT	SALE ID
1	7667	195	6	1	3	60502
2	10151	132	6	2	2	60337
3	5400	240	6	4	3	61200
4	7626	257	6	7	1	60449
5	3484	43	6	14	1	13502
6	958	123	6	14	5	60242
7	9773	54	6	14	6	60267
8	3723	32	6	14	6	60663
9	595	39	6	14	5	60929
10	3536	20	6	16	6	63145
11	5003	126	6	21	3	2365
12	5742	119	6	21	3	2381
13	6388	39	6	14	6	13874
14	7000	154	6	7	2	60647
15	6757	177	6	1	5	19597
16	7751	95	6	2	2	60766
17	1683	27	6	14	3	61538
18	19488	102	6	14	2	13742
19	13217	132	6	14	5	60051
20	13315	51	6	14	1	60101
21	1326	133	6	14	1	60168
22	7250	191	6	14	5	60546
23	3373	47	6	14	5	61026
24	4413	15	6	14	6	61661
25	8673	54	6	16	6	60141
26	1900	16	6	16	6	61248
27	6500	15	6	16	6	62695
28	3405	59	6	21	5	575
29	8378	79	6	21	5	2001
30	2936	95	6	14	6	60283
31	3450	9	6	14	6	13403
32	14569	218	6	1	3	61062
33	10290	205	6	1	3	62110
34	4970	49	6	1	3	62391
35	5307	132	6	2	2	61566
36	10660	60	6	16	8	62683
37	11500	30	6	21	5	60326
38	4135	93	6	21	5	61654
39	9253	42	6	7	2	60993
40	16000	186	6	2	2	61723
41	14910	126	6	4	3	63263
42	9900	216	6	7	1	61314
43	14538	136	6	14	1	61125
44	10700	92	6	21	5	61852
45	9300	139	6	7	3	61298
46	12763	27	6	14	4	61307
47	13900	33	6	14	1	53198
48	9302	11	6	7	1	61793
49	956	143	6	3	5	70097
50	1333	4	5	3	4	70145

* Region 6 includes: Oregon & Washington
Region 5 is California
Region 1 is northern Idaho only. Montana data being compiled separately.

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FIRM #/SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
51	1702	181	6	5	5	66091
52	11353	89	6	3	6	24916
53	2000	191	6	5	1	63882
54	2021	302	6	6	9	62149
55	5924	109	6	3	8	70020
56	3883	158	6	5	1	60714
57	19448	109	6	9	5	61966
58	5649	149	6	3	8	70012
59	7540	56	5	8	53	8730
60	9419	265	5	8	53	10217
61	6381	359	5	8	51	11368
62	8732	194	5	14	59	26546
63	8975	308	5	8	53	11314
64	5537	108	5	8	53	9656
65	1018	131	5	8	56	9706
66	10773	310	5	8	53	11355
67	4795	10	5	8	56	50408
68	2371	101	5	8	61	28286
69	6314	210	5	8	53	11975
70	8440	176	5	8	53	50093
71	7530	196	5	8	53	50101
72	6080	30	5	8	54	50416
73	4310	129	5	10	52	50339
74	9200	41	5	14	61	51739
75	13029	369	5	8	54	11769
76	5760	20	5	8	54	50135
77	7700	113	5	10	54	50347
78	5110	41	5	10	52	51345
79	21954	139	5	14	61	51416
80	9293	121	5	9	56	10266
81	12153	342	5	9	51	11506
82	17100	157	5	10	54	50305
83	16940	45	5	10	56	51097
84	21140	50	5	10	54	51105
85	11242	219	5	6	58	12561
86	3123	193	5	6	53	13676
87	5353	402	5	6	[illegible]	15374
88	9703	249	5	11	56	23835
89	2464	1	5	13	56	4718
90	3564	5	5	13	54	5236
91	19758	119	5	16	56	15793
92	5320	66	5	16	53	15836
93	4857	96	5	16	54	17121
94	5930	73	5	16	54	50747
95	20035	251	5	6	53	16034
96	29350	177	5	11	55	24197
97	9071	285	5	13	53	26309
98	7529	162	5	17	56	19795
99	26202	453	5	6	58	14369
100	5244	163	5	16	52	14763
101	6310	325	5	16	54	15224
102	11497	199	5	16	51	15802

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FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
103	3632	323	5	16	54	15943
104	9232	78	5	16	54	16214
105	19266	101	5	16	54	16305
106	6769	117	5	16	51	16693
107	7667	108	5	16	52	16917
108	5700	107	5	16	53	50259
109	10020	74	5	16	51	50424
110	9807	487	5	6	58	15952
111	5446	126	5	6	53	51176
112	22258	135	5	13	56	5772
113	6249	9	5	13	56	6176
114	7110	3	5	13	52	6978
115	12254	97	5	16	51	16677
116	14950	100	5	16	52	50234
117	9597	360	5	6	51	15762
118	16840	309	5	6	58	50178
119	31619	553	5	11	55	26184
120	12545	29	5	13	56	50328
121	6259	36	5	13	56	50331
122	18600	20	5	16	52	50762
123	13706	169	5	17	53	50613
124	16750	10	5	16	51	50564
125	11120	10	5	6	53	51309
126	18360	120	5	6	53	51580
127	11340	28	5	13	54	6655
128	7450	22	5	13	56	6788
129	11820	41	5	16	51	50812
130	11900	20	5	15	53	51380
131	15140	165	5	16	54	50507
132	35716	184	5	11	53	51120
133	16570	34	5	17	52	51660
134	6322	37	1	4	1	612446
135	10206	74	1	4	1	612750
136	4960	143	1	4	1	613881
137	3010	135	1	4	1	613972
138	7444	6	1	4	1	613394
139	1510	86	1	4	1	613220
140	2590	204	1	4	7	550009
141	10125	92	1	4	9	519526
142	4061	126	1	4	8	520151
143	5926	126	1	4	6	550066
144	6900	53	1	4	1	613253
145	9551	94	1	4	3	613685
146	2522	40	1	4	6	518205
147	9718	2	1	4	7	519559
148	9516	159	1	4	7	519591
149	6236	17	1	4	8	550728
150	3509	114	1	4	8	551221
151	6090	125	1	4	7	551262
152	4057	170	1	4	8	551296
153	3769	17	1	4	3	651070
154	9970	63	1	4	1	613709

FIRM #./SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
86						
155	12491	103	1	4	1	613873
156	14544	72	1	4	7	550264
157	14022	147	1	4	8	550074
158	13361	139	1	4	8	550082
159	6230	135	1	4	7	551072
160	8526	35	1	4	3	650007
161	11939	123	1	4	3	650502
162	11624	198	1	4	8	550744
163	8203	112	1	4	7	551684
164	16147	240	1	4	1	650965
165	7378	9	1	4	8	551544
476						
1	7520	185	5	10	52	15170
2	9564	236	5	10	53	15857
3	4058	117	5	14	51	20941
4	7689	238	5	14	51	21972
5	3903	177	5	14	52	22517
6	2812	92	5	14	58	26538
7	2926	182	5	14	61	30076
8	2367	305	5	14	59	30092
9	8306	203	5	10	52	15493
10	3361	578	5	10	53	15969
11	7493	487	5	10	52	16558
12	6895	202	5	14	52	21303
13	15329	179	5	14	52	21428
14	12698	242	5	14	51	21857
15	12027	275	5	14	52	21915
16	8549	672	5	14	56	22196
17	2200	209	5	14	52	23127
18	6668	322	5	14	58	30027
19	2216	157	5	14	56	50331
20	2233	71	5	14	59	51507
21	7673	512	5	10	53	16616
22	9798	141	5	14	52	21582
23	9303	251	5	14	52	22111
24	14368	383	5	14	61	28684
25	11093	374	5	14	59	33039
26	4360	10	5	14	56	50208
27	1699	11	5	14	54	50497
28	3330	26	5	14	52	50786
29	8962	338	5	10	54	16947
30	7982	361	5	10	52	50149
31	4190	15	5	10	52	50974
32	12933	666	5	14	55	22723
33	6420	378	5	14	54	22822
34	13815	545	5	14	52	22897
35	9425	287	5	14	52	23028
36	6640	69	5	14	56	50083
37	8569	95	5	14	52	50141

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FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
38	3413	51	5	14	52	50372
39	4244	29	5	14	52	50471
40	5686	137	5	14	58	51283
41	20300	28	5	14	56	51812
42	3200	38	5	14	59	51960
43	10295	101	5	10	53	51071
44	19250	27	5	14	52	50604
45	6300	17	5	14	52	50869
46	17206	162	5	14	56	51408
47	20252	232	5	6	53	12009
48	20081	186	5	6	58	13007
49	8212	144	5	9	55	6313
50	12356	48	5	11	51	21219
51	6477	18	5	11	51	21433
52	9420	222	5	11	56	23132
53	22627	228	5	11	52	23801
54	9670	21	5	11	51	24298
55	9271	5	5	17	55	12444
56	11201	28	5	17	56	13665
57	9622	112	5	17	56	15264
58	3520	79	5	17	56	19738
59	12243	239	5	6	51	12629
60	492	10	5	11	55	52433
61	10393	170	5	6	58	11806
62	1911	214	5	3	53	50312
63	23106	21	5	3	56	50395
64	1538	117	5	6	58	12272
65	6068	289	5	6	58	13648
66	8695	385	5	6	58	15333
67	2292	170	5	6	58	51291
68	12626	326	5	9	55	7365
69	11734	336	5	9	55	7436
70	2671	139	5	11	56	23223
71	21047	144	5	11	56	23231
72	11915	23	5	17	53	12436
73	20101	129	5	17	53	16908
74	16549	152	5	17	56	17518
75	2704	86	5	17	56	50126
76	3570	48	5	6	51	50167
77	13642	353	5	6	58	14997
78	10086	567	5	6	53	15069
79	12030	19	5	6	51	51236
80	9490	19	5	6	58	51566
81	23100	201	5	11	54	23249
82	19753	233	5	11	51	25905
83	16680	475	5	11	52	26200
84	21393	131	5	11	54	27083
85	7000	46	5	11	51	53357
86	11640	153	5	11	52	53929
87	12996	463	5	17	56	19456
88	10652	179	5	17	56	19696
89	9650	64	5	17	56	21189

FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
476						
90	5115	162	5	17	56	21379
91	9264	211	5	3	51	50221
92	9000	32	5	3	51	50876
93	21120	495	5	6	53	15655
94	18492	253	5	6	51	15838
95	15728	293	5	6	51	15986
96	15361	316	5	6	53	16091
97	3060	66	5	6	53	50681
98	11243	89	5	6	51	51066
99	4457	10	5	6	53	51091
100	12946	277	5	9	53	7167
101	20403	217	5	11	53	26697
102	24300	607	5	11	56	27416
103	19329	602	5	11	56	27463
104	2963	287	5	11	52	27885
105	15918	229	5	11	56	28123
106	12763	42	5	11	56	53086
107	16310	16	5	11	54	53316
108	10500	133	5	17	56	21637
109	7990	42	5	17	57	50695
110	2617	15	5	17	56	50993
111	8820	52	5	17	56	51462
112	11536	186	5	8	58	50756
113	13447	340	5	9	53	7329
114	11065	11	5	17	53	50825
115	17120	84	5	11	55	53266
8						
1	6906	92	6	17	8	13293
2	12302	62	6	16	1	60133
3	2200	23	6	16	1	62676
4	4266	79	6	17	8	60413
5	8581	140	6	17	8	60744
6	3060	127	6	17	4	61247
7	2550	113	6	21	1	60888
8	2591	137	6	21	4	61092
9	2905	91	6	21	2	60625
10	5364	57	6	21	2	2373
11	5641	363	6	20	2	60244
12	7159	279	6	20	2	60277
13	10100	305	6	20	3	60576
14	12935	213	6	20	3	60772
15	6300	203	6	2	4	61129
16	10701	107	6	14	6	60275
17	1122	53	6	14	6	60325
18	4474	171	6	14	1	61928
19	6634	23	6	14	5	62786
20	9840	57	6	16	7	60117
21	6196	69	6	16	2	60620
22	10026	22	5	16	1	60950

FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
8						
23	4961	76	6	18	8	61466
24	7700	83	6	16	9	63463
25	5254	99	6	17	6	60696
26	13319	185	6	17	3	60587
27	5826	176	6	17	3	60550
28	684	63	6	17	4	60942
29	13579	191	6	17	8	61163
30	4937	92	6	17	8	61593
31	17126	298	6	20	1	60459
32	5100	191	6	20	1	61192
33	7065	112	6	21	2	60912
34	4073	95	6	21	5	61043
35	2377	73	6	14	1	62061
36	4232	74	6	17	8	60397
37	7612	21	6	16	6	13536
38	10965	170	6	20	2	60087
39	11500	356	6	20	2	60673
40	6739	309	6	20	2	60798
41	13159	119	6	16	6	61323
42	8621	47	6	14	6	61331
43	8839	91	6	16	2	61703
44	4910	52	6	14	5	61968
45	13737	61	6	16	8	61453
46	9641	161	6	16	6	62642
47	9600	34	6	16	6	64616
48	10451	136	6	17	9	60512
49	9774	176	6	17	3	61678
50	6501	196	6	17	3	62278
51	6500	97	6	17	3	63263
52	2400	80	6	17	3	63250
53	5700	148	6	17	3	63268
54	10454	37	6	17	3	63631
55	12100	430	6	20	1	60956
56	6900	186	6	20	2	61169
57	5233	186	6	21	2	61373
58	5775	140	6	21	5	61498
59	5562	81	6	21	6	60573
60	14000	96	6	16	2	64325
61	14294	267	6	20	2	60967
62	14133	22	6	14	6	61711
63	9700	21	6	14	6	63030
64	13137	61	6	16	2	61586
65	9292	189	6	16	2	61596
66	5036	34	6	16	1	62295
67	10987	38	6	16	6	62519
68	13657	81	6	16	1	62733
69	7637	68	6	16	2	62766
70	9900	8	6	16	6	62964
71	11900	10	6	15	8	63660
72	8300	9	6	15	9	64077
73	12300	322	6	17	3	62260
74	4100	46	6	17	3	63509

FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
75	9209	51	6	21	5	60862
76	6119	107	6	21	2	61696
77	14700	19	6	16	2	63806
78	14900	138	6	14	6	61851
79	19700	161	6	14	6	61992
80	15900	158	6	14	5	62016
81	13200	61	6	14	6	62446
82	14100	5	6	14	6	63006
83	5953	101	6	16	7	62857
84	16519	103	6	17	4	62450
85	12858	164	6	17	4	63144
86	8300	119	6	17	3	63441
87	17371	231	6	17	4	61254
88	527	207	6	5	1	67967
89	4207	240	6	5	5	66609
90	3747	68	6	18	4	60800
91	2303	185	6	10	6	21913
92	4615	182	6	10	6	23215
93	3463	133	6	10	2	23752
94	9953	308	6	10	6	61491
95	6268	319	6	10	6	61541
96	9206	341	6	10	6	61582
97	10399	426	6	10	6	62960
98	6303	394	6	10	3	63562
99	6242	343	6	11	4	61953
100	3700	230	6	12	1	66506
101	8400	317	6	12	1	67506
102	7600	302	6	12	1	67603
103	2308	232	6	6	5	66426
104	2253	444	6	15	2	64631
105	12997	143	6	18	4	60867
106	3747	358	6	10	1	63323
107	6583	280	6	10	1	61988
108	3045	141	6	15	2	16801
109	6663	286	6	10	6	61590
110	11381	185	6	10	6	64826
111	11957	252	6	12	1	62883
112	4100	[illegible]	6	12	1	71258
113	3740	369	6	10	2	63109
114	7979	352	6	6	5	64434
115	6638	328	6	15	2	61066
116	8008	490	5	15	2	62783
117	6359	359	6	15	2	65976
118	10086	348	6	18	4	64927
119	2330	91	6	18	4	67565
120	6782	424	6	10	6	63349
121	9372	209	6	3	8	70061
122	3268	230	6	11	2	64064
123	5538	53	6	11	2	64213
124	5152	189	6	11	4	63959
125	5605	236	6	15	2	61033
126	6295	319	5	15	2	56376

FIRM #/SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
8						
127	12131	463	6	10	6	63117
128	931	149	5	5	55	22256
129	7939	218	5	5	55	24401
130	4703	121	5	5	57	50286
131	6610	285	5	10	51	16509
132	507	157	5	14	59	25522
133	6325	246	5	5	51	24674
134	4614	318	5	5	55	26042
135	5961	409	5	5	55	26158
136	3056	329	5	5	51	28311
137	3699	128	5	5	57	50377
138	8399	516	5	5	51	26398
139	5420	59	5	14	59	51945
119						
1	3350	174	6	20	2	60962
2	8100	417	6	20	1	60871
3	5000	342	6	20	1	60970
4	13430	359	6	1	3	61609
5	5707	224	6	15	3	22742
6	10911	228	6	15	5	60282
7	6336	214	6	15	4	60316
8	9827	288	6	15	2	60464
9	6164	159	6	15	5	60589
10	1727	241	6	15	3	60605
11	7918	207	6	15	4	60738
12	1956	137	6	15	3	60761
13	7965	237	6	15	4	60811
14	5119	267	6	15	4	60886
15	334	207	6	15	5	60951
16	6331	322	6	15	3	61017
17	4578	226	6	15	3	61058
18	8760	324	6	15	2	61272
19	5934	335	6	15	2	61728
20	3455	288	6	15	4	61896
21	4470	173	6	15	3	61926
22	4373	263	6	15	2	61959
23	6809	377	6	15	5	62064
24	4374	244	6	15	4	62189
25	5600	419	6	15	4	62247
26	8900	422	6	15	5	62395
27	7500	478	6	15	4	62932
28	4400	329	6	15	5	63302
29	10300	413	6	15	5	63724
30	4900	451	6	15	2	64227
31	2200	395	6	15	5	64565
32	4598	133	6	15	3	22585
33	9755	197	6	15	3	22619
34	1341	90	6	18	5	73100
35	9369	472	6	11	5	62393

FIRM	## /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
	119						
36		5510	912	6	11	5	62506
37		4070	149	6	11	5	65632
38		5419	285	6	15	2	22502
39		3867	245	6	15	2	22536
40		9583	123	6	15	2	60423
41		8022	233	6	15	2	60803
42		1866	274	6	15	2	60829
43		3116	199	6	15	4	60902
44		2993	196	6	15	2	60928
45		7102	282	6	15	5	61322
46		3359	347	6	15	5	62007
47		3956	390	6	15	4	62031
48		3187	364	6	15	3	62197
49		9919	348	6	15	3	62205
50		7252	353	6	15	2	62254
51		2124	312	6	15	2	62270
52		5456	349	6	15	3	62338
53		6100	385	6	15	2	62411
54		3128	365	6	15	2	62429
55		7500	639	6	15	3	62452
56		9100	404	6	15	2	62502
57		10200	645	6	15	3	63021
58		8000	341	6	15	4	63393
59		5600	478	6	15	3	63476
60		3600	506	6	15	2	64490
61		5400	535	6	15	2	64508
62		5800	615	6	15	2	64557
63		5430	427	6	15	3	64607
64		10600	607	6	18	5	70270
65		6700	206	6	18	5	71682
66		1192	116	6	15	4	20357
67		10200	500	6	3	1	60419
68		3504	203	6	15	2	22593
69		3010	303	6	15	2	63922
70		8600	249	6	3	8	70264
71		8400	301	6	3	1	60815
72		13550	820	6	11	5	62514
73		2400	132	6	15	5	68830
74		6035	233	6	15	2	61090
75		9669	314	6	15	3	61132
76		7300	633	6	15	2	63463
77		8123	327	6	15	4	63617
78		7200	542	6	15	2	63716
79		7300	476	6	15	3	63740
80		10700	423	6	15	3	64474
81		5500	419	6	15	5	64722
82		6100	318	6	15	5	64813
83		9000	359	6	15	4	65018
84		6700	306	6	15	3	65042
85		3500	448	6	15	3	65968
86		3503	291	6	15	3	66115
87		3300	483	6	15	2	66131

FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
119						
140	11960	287	5	11	52	50713
141	22720	116	5	6	51	50376
35						
1	1315	193	6	1	3	60254
2	2544	83	6	1	1	61336
3	673	91	6	1	1	61393
4	8400	63	6	1	1	62938
5	14240	85	6	21	3	1474
6	1381	326	6	1	5	60312
7	6452	297	6	1	5	60494
8	15740	273	6	1	5	60577
9	5047	142	6	1	1	60861
10	3945	115	6	1	3	61187
11	6913	207	6	1	5	61674
12	9200	351	6	1	5	61732
13	11624	289	6	7	3	60131
14	6042	159	6	7	1	60761
15	6746	167	6	7	1	60910
16	2890	305	6	7	2	60832
17	4242	107	8	7	2	60902
18	10020	72	8	1	1	18076
19	13733	308	6	1	5	60668
20	9950	230	6	1	3	60825
21	13012	300	6	1	5	61153
22	8412	248	6	1	3	61294
23	12038	297	6	1	5	61492
24	6266	310	8	1	5	61534
25	6126	149	6	1	1	61575
26	7569	223	6	1	5	61593
27	12210	210	6	1	1	61726
28	8119	116	8	1	5	62565
29	8060	72	8	1	1	62631
30	4140	110	6	1	1	62690
31	9566	65	6	7	1	60969
32	14425	239	8	1	5	61344
33	12700	359	6	1	1	61765
34	14735	123	8	1	1	62102
35	12240	125	6	1	5	62292
36	11320	13	8	1	3	62615
37	10100	74	8	1	5	62698
38	12370	85	6	1	5	62797
39	13410	119	8	1	5	63035
40	6263	369	5	3	53	10233
41	9109	247	5	8	53	10241
42	8045	459	5	8	51	11330
43	10619	209	5	14	55	20925
44	3097	109	5	3	53	4822
45	3124	211	5	3	51	9649
46	5300	112	5	8	53	9755

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FIRM #/SALE #	VOLUME	STAT SID	REGION	FOREST	DISTRICT	SALE ID
88	6300	308	6	15	4	66149
89	6100	289	6	15	4	66248
90	9002	373	6	15	2	66289
91	6200	397	6	15	3	66297
92	8500	318	6	15	4	66305
93	4800	237	6	15	4	66338
94	5200	155	6	15	4	67659
95	12000	412	6	18	5	70254
96	10003	330	6	3	8	70426
97	5243	207	6	15	3	61025
98	7843	333	6	15	5	61124
99	7100	219	6	15	2	64714
100	5700	376	6	15	5	66099
101	4200	195	6	15	2	66313
102	6600	145	6	15	3	66487
103	10000	296	6	15	2	66495
104	6700	215	6	15	3	66503
105	5400	30	6	15	3	68020
106	9800	55	6	15	3	68095
107	5200	139	6	15	4	68145
108	8200	74	6	15	4	68277
109	8400	80	6	15	5	68574
110	8100	79	6	15	2	68665
111	13200	78	6	15	2	68707
112	10900	155	6	15	2	68913
113	8400	173	6	15	4	68954
114	9700	319	6	15	5	66354
115	7300	299	6	15	2	66412
116	10520	43	6	15	4	68103
117	15500	124	6	15	2	65699
118	18900	502	6	3	1	60757
119	19019	116	5	9	53	9748
120	7010	273	5	5	57	50450
121	2957	90	5	8	53	9508
122	6983	217	5	14	51	22103
123	8250	266	5	14	51	22509
124	6740	198	5	5	55	50476
125	23080	344	5	8	51	19258
126	4590	192	5	8	56	50163
127	9252	352	5	14	61	31900
128	8981	189	5	14	59	33070
129	4920	24	5	14	51	50695
130	4320	82	5	14	59	51366
131	11790	112	5	9	51	50077
132	10791	406	5	14	61	31367
133	16090	631	5	14	61	33021
134	12336	427	5	14	56	33047
135	10550	121	5	14	59	51432
136	11150	115	5	5	56	50536
137	11700	239	5	14	51	50159
138	5440	493	5	6	53	14880
139	9300	455	5	6	53	16026

FIRM ~~#~~ /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
35						
47	14324	155	5	14	51	21493
48	10270	143	5	14	51	21576
49	14020	107	5	3	53	8260
50	9363	358	5	17	54	18268
51	23790	75	5	11	53	21698
52	2973	122	5	6	51	11043
53	4632	177	5	6	51	12090
54	15640	237	5	6	51	13080
55	12920	394	5	11	52	25285
56	10711	362	5	11	56	25400
57	30643	187	5	17	54	15785
58	28631	255	5	6	51	13262
59	15474	365	5	6	51	14443
60	17060	464	5	6	58	15739
61	7772	194	5	6	51	50582
62	27569	358	5	11	53	25723
63	17480	409	5	11	53	27646
64	22700	234	5	6	53	50368
65	19630	269	5	3	56	50122
66	4841	167	1	4	8	550017
67	5536	135	1	4	8	550363
68	10053	52	1	4	9	708186
69	8747	150	1	4	8	519468
70	8561	27	1	4	2	707493
71	3949	108	1	5	4	14725
72	7054	131	1	4	4	750047
73	1738	80	1	5	4	16027
74	16916	129	1	4	2	750021
75	5430	42	1	5	4	15532
76	10230	99	1	4	9	750831
77	13679	28	1	4	3	651187
78	9188	235	1	4	1	650924
79	10058	62	1	4	8	551833
80	15209	20	1	4	2	750914
81	9277	14	1	4	8	751250
12						
1	14700	120	6	17	3	63367
2	4200	87	6	17	3	63581
3	8200	74	6	17	3	63771
4	12600	121	6	17	3	62500
5	22600	141	6	17	6	62949
6	17000	20	6	17	8	63722
7	16400	7	6	17	8	64019
8	19000	17	6	17	5	63947
9	2171	118	6	3	6	24494
10	4536	156	6	3	1	61065
11	2566	192	6	3	1	61052
12	531	151	6	3	5	26242
13	1384	211	6	5	7	65952

FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
12						
14	2900	153	6	5	2	68519
15	1518	117	6	5	2	69543
16	1923	174	6	6	5	39978
17	2743	208	5	6	5	61562
18	4577	317	6	6	5	62768
19	722	70	6	6	5	67247
20	4182	350	6	5	2	64427
21	7535	232	6	6	5	40901
22	7374	260	6	6	5	61448
23	12534	242	6	3	5	69149
24	20201	138	6	5	7	25283
25	4345	302	6	6	5	62164
26	5242	385	6	6	3	65076
27	5959	227	6	3	7	67612
28	5794	259	6	6	5	60778
29	649	130	6	9	1	64928
30	3000	296	6	3	5	68050
31	4900	182	6	3	5	68263
32	6900	269	6	5	4	62447
33	1830	161	6	5	5	64567
34	4000	295	6	5	1	65531
35	4950	298	6	6	4	66637
36	4998	360	6	6	3	66506
37	2300	390	6	5	2	61399
38	2100	231	6	5	1	64047
39	6891	491	6	6	4	65027
40	6700	326	6	5	1	63536
41	13900	143	6	3	1	61268
42	6009	361	6	6	5	62180
43	9230	333	6	6	5	64418
44	7947	335	6	6	5	65136
45	11200	86	6	5	2	68774
46	21701	288	6	3	5	67638
47	6400	139	6	5	2	69999
48	12800	372	6	3	5	68065
49	9200	406	6	5	7	65798
50	3600	270	6	5	7	65929
51	5600	130	6	5	4	66471
52	6100	93	6	5	1	69301
53	10721	235	6	6	3	61653
54	17950	333	6	6	5	62776
55	10345	432	6	6	3	64210
56	14626	345	6	6	3	66462
57	11793	198	6	6	3	64493
58	6300	566	6	6	5	65167
59	14325	313	6	6	3	66686
60	8200	242	6	5	5	67080
61	7745	179	6	5	3	67114
62	12586	11	6	6	3	67168
63	10557	21	6	6	3	69013
64	8500	225	5	9	2	64738
65	5100	314	6	5	2	61373

FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
12						
66	14900	393	6	9	5	63904
67	7251	221	6	3	5	26168
68	11500	467	6	6	3	64145
69	6100	19	6	5	4	69111
70	8200	53	6	9	1	65565
71	14200	414	6	3	4	65673
72	10900	137	6	3	4	66309
73	13800	317	6	3	7	68081
74	10770	199	6	5	2	67735
75	4500	32	6	6	4	68088
76	13573	237	6	9	5	63524
77	8000	329	6	6	3	66512
78	16300	373	6	3	6	65681
79	13600	372	6	3	5	68248
80	46900	184	6	5	5	62538
81	14900	8	6	9	5	65107
82	11900	7	6	5	6	66570
83	26100	259	6	3	1	60294
84	15500	312	6	3	5	68230
85	12200	429	6	3	8	70798
86	22400	192	6	5	7	69251
369						
1	6859	456	6	15	2	62130
2	2700	358	6	15	2	63757
3	2123	284	6	18	2	64417
4	8475	305	6	18	6	60115
5	7500	272	6	18	8	60190
6	7732	266	6	18	6	60206
7	9200	395	6	18	8	60578
8	4722	338	6	18	7	62561
9	3821	401	6	18	1	65783
10	499	146	6	19	7	73225
11	3070	338	6	10	6	63273
12	4410	312	6	10	1	63364
13	10885	621	6	11	4	61201
14	6031	284	6	11	2	61870
15	2978	136	6	15	2	22734
16	2309	276	6	19	8	39321
17	11205	328	6	18	6	60305
18	7265	299	6	18	5	60321
19	2042	295	6	19	1	60404
20	4503	200	6	18	7	60453
21	11737	409	6	19	8	60560
22	10226	459	6	18	7	60735
23	5900	355	6	18	7	71534
24	1839	240	6	11	2	60930
25	6209	423	6	10	2	61376
26	7958	437	6	11	2	62738
27	3500	273	6	15	2	66420

FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
369						
28	10300	428	6	18	6	65858
29	8000	382	6	18	6	70304
30	7400	351	6	18	6	70437
31	5100	334	6	19	8	71484
32	5300	384	6	18	7	71492
33	8700	337	6	19	7	71567
34	3600	63	6	18	6	74306
35	6610	120	5	18	5	74264
36	14368	529	6	18	5	65932
37	9300	420	6	19	5	65940
38	13600	372	6	18	7	71674
39	4617	139	6	18	1	71815
40	6700	104	6	19	6	74280
41	5580	246	6	10	1	64602
42	14700	101	6	18	5	74330
43	9254	58	5	5	54	22538
44	7213	248	5	10	52	16129
45	9319	304	5	14	56	28278
46	14742	95	5	5	52	20560
47	9292	156	5	10	52	15584
48	9652	249	5	10	53	15865
49	16976	235	5	14	56	21584
50	4458	171	5	5	52	21290
51	9340	231	5	5	52	22942
52	4640	10	5	5	54	51169
53	2340	165	5	14	52	50109
54	3734	62	5	14	52	50521
55	6910	58	5	14	54	50612
56	8290	69	5	14	54	50737
57	5670	57	5	14	54	50836
58	31662	178	5	5	57	24366
59	11077	500	5	5	52	25614
60	8320	686	5	5	58	26307
61	5318	265	5	5	54	26422
62	7230	469	5	5	58	28386
63	10326	423	5	10	53	17036
64	8680	10	5	14	54	50182
65	19612	227	5	5	58	24740
66	9778	441	5	5	51	26161
67	13369	646	5	5	52	27347
68	15260	66	5	5	52	51648
69	11136	99	5	10	53	50271
70	15599	531	5	5	52	35648
71	29060	594	5	5	58	27794
36						
1	18113	127	6	4	2	60228
2	3341	129	6	4	4	60939
3	3200	296	6	4	1	61358
4	8814	161	5	4	4	61432

36

FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
5	1984	70	6	4	2	61457
6	2050	194	6	4	4	61499
7	4600	239	6	4	1	61754
8	3200	188	6	4	2	61812
9	23723	279	6	7	4	60159
10	12078	267	6	7	4	60381
11	8357	99	6	7	4	52196
12	1763	117	6	4	2	60111
13	1559	139	6	4	3	60772
14	3398	160	6	4	3	61085
15	13186	85	6	4	4	61101
16	9976	171	6	4	2	61366
17	5100	27	6	4	2	61465
18	4074	31	6	4	2	61838
19	7273	145	6	4	1	61861
20	12700	126	6	4	2	61952
21	9796	150	6	4	4	61960
22	2757	85	6	4	4	62323
23	7700	141	6	4	3	63511
24	3600	144	6	4	3	63545
25	4197	243	6	7	4	60340
26	3300	151	6	7	4	60670
27	7733	123	6	7	4	60951
28	8000	198	6	7	4	61092
29	3910	126	6	4	1	4230
30	2300	230	6	4	4	62356
31	9073	103	6	4	3	61077
32	19595	152	6	4	4	61275
33	24198	190	6	4	2	61361
34	12296	70	6	4	2	61929
35	6154	22	6	4	1	61986
36	2700	81	6	4	4	62380
37	9900	128	6	4	2	62406
38	9489	94	6	4	4	62414
39	5026	97	6	4	4	63065
40	6550	149	6	4	2	63321
41	9200	204	6	4	3	63438
42	6511	24	6	4	1	63651
43	5564	22	6	4	4	64071
44	8362	52	6	4	2	64352
45	14637	303	6	7	6	60506
46	2951	64	6	7	4	61405
47	9300	119	6	14	1	61539
48	7209	87	6	4	2	61965
49	21815	169	6	4	3	61788
50	10738	111	6	4	3	62109
51	7646	28	6	4	4	62133
52	9462	102	6	4	2	62174
53	12700	18	6	4	1	62745
54	9400	156	5	4	2	63123
55	8976	9	6	4	1	63644
56	12500	222	6	7	4	61157

FIRM #:/SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
36						
57	14502	273	6	7	4	61223
58	11900	54	6	7	4	61660
59	9433	36	6	6	3	62369
60	21800	172	6	4	2	63198
171						
1	4598	297	6	18	1	60977
2	1564	251	6	15	1	61157
3	10256	603	6	15	1	61936
4	4397	262	6	15	1	63260
5	2261	363	6	15	1	63278
6	8054	238	6	18	6	39412
7	4140	417	6	18	6	62533
8	5840	313	6	18	5	65791
9	1857	225	6	12	2	62075
10	12959	272	6	15	1	60985
11	7920	297	6	15	1	61660
12	5319	464	6	15	1	61744
13	6230	301	6	15	1	62239
14	3800	219	6	15	1	65794
15	958	23[illegible]	6	18	9	60535
16	2543	192	6	18	6	60446
17	8594	269	6	15	8	60461
18	2304	231	6	15	5	22627
19	7832	239	6	18	1	60685
20	6200	237	6	18	9	37374
21	8570	227	6	12	3	62067
22	12900	521	6	12	2	64287
23	5600	377	6	12	2	65860
24	7909	37	6	12	2	69583
25	9569	497	6	15	1	62510
26	5100	342	6	15	1	65059
27	2980	288	6	15	1	65216
28	1355	149	6	15	1	65521
29	1358	39	6	15	1	65511
30	4600	184	6	15	1	67352
31	4097	58	6	15	1	68046
32	13900	530	6	18	6	62632
33	15200	553	6	18	6	65916
34	14100	374	6	18	8	71500
35	3286	63	6	18	5	73902
36	15367	514	6	15	1	64177
37	10562	517	6	15	1	64185
38	9200	449	6	15	1	66198
39	7900	335	6	18	5	70452
40	6369	63	6	15	1	69319
41	1361	86	5	3	53	50445
42	5897	96	5	17	55	13715
43	2252	16	5	17	56	51228
44	7789	81	5	3	56	9315

FIRM # /SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
171						
45	6570	225	5	3	56	10610
46	3263	53	5	3	55	50163
47	8561	86	5	17	57	16056
48	14711	107	5	17	55	17170
49	17285	457	5	3	56	10563
50	5250	34	5	3	51	10816
51	11929	51	5	17	56	50631
52	10096	271	5	3	51	11228
53	10320	16	5	3	56	50858
54	9792	318	5	17	53	19977
55	12989	440	5	17	56	19985
56	13900	109	5	17	53	50340
57	12621	79	5	17	56	50555
58	5940	38	5	17	54	51603
59	5520	30	5	17	55	51678
60	27601	287	5	17	55	19415
61	9742	43	5	17	55	50787
483						
1	19447	249	5	3	53	9321
2	11133	224	5	3	55	9818
3	7010	310	5	3	51	10402
4	11191	238	5	15	53	13563
5	18990	75	5	15	55	13932
6	5197	99	5	16	52	12700
7	14269	11	5	16	52	12783
8	14216	190	5	16	52	14680
9	7093	133	5	3	51	8995
10	12367	127	5	3	51	10030
11	6759	269	5	3	51	10239
12	8179	268	5	3	53	10826
13	4968	76	5	15	57	12644
14	9086	281	5	15	57	16458
15	3955	34	5	15	57	15357
16	6536	226	5	17	56	16973
17	10781	322	5	17	54	19169
18	4956	152	5	17	57	18219
19	14701	458	5	17	56	18276
20	8770	155	5	17	56	18910
21	9345	164	5	16	52	14623
22	5923	178	5	16	52	15117
23	14180	98	5	16	52	16263
24	21709	131	5	3	51	10931
25	19023	75	5	15	57	13634
26	6250	283	5	17	56	50365
27	12510	153	5	16	52	50366
28	26705	191	5	3	55	10349
29	14172	329	5	3	56	10990
30	10615	166	5	3	53	11202
31	10479	127	5	3	55	55713

483

FIRM NO./SALE #	VOLUME	STAT BID	REGION	FOREST	DISTRICT	SALE ID
32	14486	133	5	15	55	15209
33	10730	170	5	17	54	21460
34	6931	131	5	17	56	50656
35	12190	157	5	3	55	50411
36	16300	172	5	15	55	50250
37	22130	10	5	15	57	50492

Total volume and value of extensions by firm.

ENCLOSURE 4
QUESTION 12

FIRM NUMBER	VOLUME (MMbf)	STATISTICAL HIGH BID (Million Dollars)
86	171.5	25.0
171	109.4	25.0
476	103.4	18.3
35	85.3	9.1
12	82.1	19.2
369	72.7	13.8
357	71.4	4.3
119	71.1	25.5
8	67.8	13.0
100	64.6	15.2
321	64.4	18.9
62	62.8	14.7
483	54.2	6.1
113	54.1	10.2
499	47.1	5.4
541	46.2	8.5
92	43.5	11.6
236	43.2	12.6
29	42.8	3.2
317	42.2	10.1
316	41.4	12.9
156	40.5	6.2
378	40.0	9.7
145	39.0	9.8
36	38.4	4.7
20	37.8	10.7
313	37.5	20.9
409	35.9	10.4
3	35.8	5.1
214	35.8	9.3
26	35.5	5.3
7	35.3	2.8
538	34.3	6.5
30	33.8	7.1
76	33.4	4.8
531	31.6	1.3
91	31.2	5.7
60	28.5	1.7
323	28.5	4.5
284	28.5	5.5
213	28.0	7.4
368	26.8	9.7
109	26.3	8.7
358	26.2	2.0
314	24.6	2.8
355	24.4	6.5
123	23.9	4.4
88	23.4	6.8
74	23.2	5.4
340	22.7	2.9
346	22.4	6.8
379	22.3	6.6
136	22.2	1.6
612	21.7	.3

ENCLOSURE 4
(Continued)

FIRM NUMBER	VOLUME (MMbf)	STATISTICAL HIGH BID (Million Dollars)
34	21.7	4.2
153	21.4	1.7
248	20.0	7.5
533	19.8	3.0
518	19.7	2.5
199	18.1	4.1
133	18.0	6.2
301	17.9	4.2
16	16.6	3.2
495	16.1	.9
303	16.0	1.2
443	15.2	1.8
117	15.2	2.8
152	14.8	4.0
169	14.3	4.7
167	14.2	2.4
17	14.0	1.7
347	13.6	3.4
339	13.4	4.9
436	13.1	2.1
457	13.0	2.1
250	12.8	1.4
342	12.3	1.6
307	12.1	3.3
500	11.9	5.5
348	11.6	.8
354	11.3	2.7
490	11.2	1.1
516	11.2	1.3
54	11.1	1.3
217	10.7	2.2
27	10.6	.4
89	10.5	4.8
144	10.5	.6
225	10.1	2.7
223	9.9	2.2
184	9.8	1.1
623	9.6	.6
392	9.0	3.1
51	8.8	.6
42	8.8	.0
107	8.6	1.8
513	8.5	.3
141	8.4	1.0
9	8.4	.6
320	8.4	.9
97	8.0	1.8
83	7.9	.4
5	7.7	3.9
325	7.6	2.3
474	7.2	.8
233	7.2	2.1
230	7.0	1.3
226	6.9	1.2
142	6.9	.2
434	6.9	.9
155	6.9	.8

ENCLOSURE 4
(Continued)

FIRM NUMBER	VOLUME (MMbf)	STATISTICAL HIGH BID (Million Dollars)
148	6.8	.9
221	6.6	1.7
389	6.3	.7
41	6.3	.1
402	6.2	1.4
260	6.1	1.1
264	6.1	.6
521	6.0	.3
556	5.9	.2
385	5.7	2.7
204	5.6	2.2
371	5.5	2.1
549	5.5	.6
4	5.4	.4
510	5.4	.2
509	5.2	.4
398	5.2	.9
523	5.2	.5
135	5.0	.2
601	4.7	.4
110	4.6	.3
399	4.5	.7
228	4.5	.0
22	4.5	1.3
470	4.4	.3
309	4.4	.4
64	4.4	.3
444	4.3	.5
574	4.0	.4
87	4.0	.1
456	3.9	.0
329	3.7	1.1
161	3.7	1.5
39	3.6	.7
543	3.5	.6
246	3.5	1.4
40	3.5	.4
403	3.4	.5
102	3.3	.1
375	3.3	.9
132	3.2	.4
253	3.2	1.1
461	3.2	.5
407	3.2	.3
300	3.2	.6
138	3.0	.2
187	2.9	.2
322	2.9	.9
337	2.9	.6
267	2.5	.3
237	2.4	.3
401	2.2	.8
111	2.1	.1
50	1.9	.3
63	1.9	.1
160	1.8	.2
180	1.3	.4

FIRM NUMBER	VOLUME (MMbf)	STATISTICAL HIGH BID (Million Dollars)
468	1.1	.1
599	1.1	.1
243	1.0	.1
55	.8	.0
52	.8	.0
186	.8	.2
280	.8	.1
592	.7	.0
192	.6	.1
150	.5	.1
215	.3	.0
563	.2	.0

APPENDIX II

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

Questions and Answers on Timber Contract Legislation, S. 916

April, 1983

Q. Why is federal timber contract termination and extension legislation needed now?

A. The national market for lumber and plywood was collapsed in 1980, 1981 and 1982 because of high interest rates and low housing starts. With a revival of homebuilding in 1983, wood products markets and prices have increased moderately. But prices for forest products are nowhere near the levels anticipated when timber contracts were bid in the late 1970s. Employment is down 19 percent from 1979 levels. Most contracts for federal timber were made before the market collapsed. These contracts now are economically inoperable because the timber raw material costs more than the finished products are worth in the market. Many timber companies will default on these contracts and face bankruptcy if contracts cannot be modified. The market cannot rebound sufficiently in the next five to six years to prevent widespread defaults and bankruptcies.

Q. How does the Hatfield-Jackson-McClure bill help the situation?

A. It temporarily authorizes the Secretaries of Agriculture and Interior to modify timber sale contracts. Purchasers could terminate contracts for up to 40 percent of their federal timber, and defer the expiration date of their other contracts for up to five years. Thus, purchasers could turn back some of their highest priced contracts, then bid on the current market for lower priced timber and blend new timber contracts with extended contracts to achieve an operable raw material cost. Changes in road financing would provide major cash-flow assistance.

Q. Why is S. 916 in the national interest?

A. It will cost the government less than the status quo, and will preserve the structure of a fundamental national industry. At the present level of housing starts, this legislation will be cheaper than allowing contracts to default. Most timber can't be harvested without economic ruin. The normal penalties for contract default won't generally be collectable by the government because of bankruptcies. Massive defaults also will distort regional market patterns because the timber must be resold quickly.

A termination program would preserve an orderly market. Massive defaults and bankruptcies would lead to a highly concentrated industry, providing less competition in the market place, and a consequent lower price for federal timber in the future. Distorted market patterns would provide more opportunity for foreign competitors. Many lending institutions, especially in timber-dependent areas, would experience a severe impact if numerous companies were bankrupted.

Q. Who benefits from this legislation?

A. The federal government benefits from cost savings as compared to the status quo, and by preservation of a more competitive market for its future timber sales. Local governments benefit by receiving their share of federal timber receipts from orderly resale of terminated timber. Local governments would not receive any share of default penalties even if some penalties were collected by the federal government. Local and regional economies benefit from the retention of a competitive industry able to continue paying taxes and providing employment. Some smaller communities benefit by retaining their only significant source of employment. Industry benefits by avoiding bankruptcies, maintaining competition, and preserving productive capacity to meet the nation's housing needs.

Q. How did this situation occur?

A. Existing federal timber sale contracts bid in the past 3-5 years were based on then-existent economic conditions which have now changed greatly. Continuing high inflation, housing starts at a 2 million annual level, and perceived shortages of timber supply due to land use and Wilderness restrictions were forecast in the late 1970s, and all contributed to escalating timber prices. When government decided to fight inflation, and changed the structure of the home-financing industry, however, the market for timber products collapsed.

Q. Isn't this just an industry bailout?

A. No, its impact goes far beyond the forest products industry. Affected are county and school district revenues, employment, recovery in depressed communities, states and regions, and revenues to the federal government.

Also, when private parties have a contract that can't be performed due to totally unforeseen circumstances, they routinely renegotiate in order to accomplish performance and avoid driving one party out of business. Government's role in timber contracts is much like that of a private seller. Government as a purchaser regularly modifies contracts to take unforeseen events into account. Modification by government would bring government the greatest available return for the property it is selling.

Q. Does the bill put any conditions on timber purchasers?

A. Yes. Purchasers can terminate only a portion of their contracts. They must meet new strict performance requirements during the course of extended contracts. They must pay government the cost of advertising and reselling terminated timber.

Q. Why are terminating purchasers allowed to rebid the sales they terminate?

A. In some areas where there is a limited number of timber buyers, reoffered sales may be the only ones available at an operable price. Barring some bidders also may help speculators pick up timber at bargain prices, and force the government to sell at a lower price than if bidding is competitive.

Q. Why does this bill include changes in the purchaser road credits?

A. The purchaser road credit issue is just as relevant to industry survival as contract termination and extension. When timber sale purchasers build permanent roads as required by their contracts, the government receives a permanent asset. These roads are used for recreation, hunting and fishing, camping, firewood cutting, wildlife management, and other forest purposes as well as timber harvesting. Credits to timber purchasers for road building are based on Forest Service estimated costs, which often do not cover actual costs. The government also receives the benefit of the contractor's capital until the credits can be used. In a poor market, the timber pricing system used in most areas of the country results in road credits becoming unusable (or ineffective). The combination of ineffective credits and delay in using even effective credits causes severe cash flow problems for many contract holders. This legislation provides a remedy for that problem.

Q. Where does the forest products industry stand on this legislation?

A. With few exceptions, the forest products industry supports this legislation. Broad industry support is exemplified by the following list of supporters: National Forest Products Association, Industrial Forestry Association, Western Resource Alliance, National Independent Forest Manufacturers, Northwest Pine Association, North West Timber Association, Western Timber Association, Western Forest Industries Association. Other groups supporting S. 916 include the National Association of Home Builders, the National Lumber and Building Material Dealers Association, and the United Brotherhood of Carpenters and Joiners of America.

Questions and Answers

Why the Forest Service Purchaser Road Credits Program Should be Revised

April, 1983

Introduction. There is a single economic purpose for modifying the handling of credits which timber purchasers earn for building multi-purpose roads for the U.S. Forest Service. This purpose is to give all Forest Service timber purchasers an equal opportunity to receive prompt compensation for the permanent roads they build under a timber sale contract. These roads become a part of the National Forest Road System.

Q. What are purchaser road credits?

A. A purchaser of timber from the Forest Service often is required as part of a timber sale contract to build permanent roads in the area. The Forest Service estimates the cost of this road construction. When the road is built, the purchaser receives purchaser road credits equal to the estimated cost of that construction.

Q. What can a purchaser do with these credits?

A. The purchaser applies the road credits toward the cost of timber harvested on the sale for which the road was built or on any other timber sale in the same National Forest.

Q. What is the difference between effective and ineffective purchaser road credits?

A. At least some portion of the price of timber must be paid in cash. This includes the statutory base rate and sums due for forest regeneration. If the purchaser road credits earned on that timber sale are less than the remainder of the price due on the timber after the required cash payments, then all the credits can be used toward paying that remainder. The credits thus all are effective. But if the purchaser road credits are more than the remainder due, then the excess of credits over the remainder are ineffective. They cannot be used to purchase any timber and are thus worthless.

Q. What is the purchaser road credit provision in S. 916?

A. The provision contains three elements:

1. **Compensation**. Timber purchasers who build permanent roads for the Forest Service would receive full credit for the Forest Service estimated cost of constructing such roads regardless of the price of the timber harvested under the particular contract. Such credit would be applicable to all future Forest Service timber contracts. For contracts presently open, ineffective purchaser credit would be made effective pro rata to the portion of timber yet to be harvested under the contract. For example, a contract with $100,000 ineffective purchaser credit and 70 percent of the timber already harvested would have $30,000 of that credit made effective—representing the 30 percent of the timber yet to be harvested. No retroactive credits would be given for closed contracts.

2. **Transferability**. Timber purchasers could use these credits to pay for timber harvested under other contracts, or could transfer these credits to other purchasers. To avoid any undesirable regional impacts, however, these credits could not be transferred across the 100th meridian (from west to south or vice-versa). This transferability would have no adverse impact on payments to counties.

3. **Environmental protection**. The Act provides that it not be construed to supersede provisions of section 6(g) of the National Forest Management Act relating to the determination of the suitability of lands for resource management. NFMA provisions and planning, not road credits, determine where sales will be held. The Act further provides that it not be applicable to any areas recommended for Wilderness as a result of the Second Roadless Area Review and Evaluation (RARE II).

Q. Why is the present system inequitable?

A. Some timber purchasers are fully compensated for the roads they build because the credits they earn are effective. Others are not fully compensated because some of their credits are ineffective. But both have done the same thing—build a road for the permanent National Forest Road System. The purchaser who receives ineffective credits is subsidizing the government in obtaining a permanent asset.

Q. Is this provision a government subsidy as claimed by its opponents, and is it similar to the sale of tax credits?

A. No. The compensation would be payment for a permanent asset delivered to the government at the cost estimate made by the government. The timber sale purchaser has no residual rights or claims once the particular sale is completed. At present, any subsidy is from the timber purchaser to the government, not vice-versa.

Q. These roads are built for the removal of timber. Why should the timber contract purchaser be fully compensated if the timber value won't cover the construction costs?

A. The roads also are built for camping, hunting, fishing, firewood cutting, hiking and all the other uses of the National Forest that are appropriate in the specific area. Roads would be temporary and would cost much less if built only for the specific timber sale. Further, roads typically are built under a specific timber sale contract that provides for cutting no more than 10 to 20 percent of the timber in the area accessed by the road. The remaining 80 to 90 percent of the timber will be hauled over the roads under subsequent contracts, but the initial contractor pays 100 percent of the road cost.

Q. Don't purchasers know when they bid that some of their road credits will be ineffective? If so, why should they be compensated since they can take this into account?

A. Sometimes purchasers don't know credits will be ineffective. Timber contract prices in most sections of the country are adjusted regularly after bidding in accordance with market price indexes. A drop in the timber price can turn effective credit into ineffective credit, both surprising the purchaser and negating the purpose of contract price adjustments. Even when a purchaser knows a sale will generate ineffective credits, he may have to buy because it is the only available timber supply for his mill.

Q. Industry claims that it subsidizes the government in several ways under current practices. How is this so?

A. The building of roads is based on Forest Service cost estimates. Often these estimates do not fully compensate for actual costs. (S. 619 would not reduce this subsidy from industry). In ineffective credit situations, the purchaser assumes part of the financial burden of the road which is used by the government to manage the land in the future, although the road allows the government to realize higher prices on future sales in the same area than if a road had to be built for those sales. The government also has the use of the contractor's money until enough timber is cut to use up the road credits. Substantial working capital is drained from industry and held by the government through the present procedure. Other government contractors are paid on a timely basis with actual money, not with scrip that often can't be used right away.

Q. Opponents claim purchaser road credits are not relevant to the current timber contract problem caused by the industry's depression. Is this true?

A. The purchaser credit issue is just as relevant to industry survival as contract termination. High interest rates and reduced markets increase the liability of ineffective credit. They drive formerly effective purchaser credits into the ineffective range, creating new and unforeseen liabilities for purchasers. The delay in applying effective credits for completed work creates further unnecessary interest costs and cash flow problems for operators. Regions with a high proportion of deficit sales would be helped more by purchaser credit revision than by contract termination.

Q. Is it true that the proposal will increase road building in roadless areas?

A. No. Industry does not control the location of roads, the standards, nor the percent of harvest adjacent to the road. The single purpose of this proposal is to get equitable economic relief from uncompensated road costs and to provide a vehicle for prompt compensation for road costs as incurred, as is provided for in nearly all other government contracts. The issue of whether an area is uneconomic for timber operation is governed under the National Forest Management Act. This proposal would not make uneconomic areas economic. Many areas that are economic for forestry practice may, however, have sales that are uneconomic in their initial development, just as a farmer doesn't pay his land clearing costs from his first harvest.

Q. Would ineffective road credit compensation be retroactive to 1975?

A. No. Compensation would be only for current and future contracts. S. 916 provides no retroactive compensation.

Q. How important are purchaser-constructed roads to the Forest Service?

A. In 1981 more than 7,300 miles, or 86 percent, of the Forest Service roads were constructed by timber purchasers under provisions of timber sale contracts.

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Statement of the

American Federation of State, County
and Municipal Employees, AFL-CIO

To The

Committee on Energy and
Natural Resources
Subcommittee on Public Lands and Reserved Water

On

S. 916
"The Timber Contract Relief Act"

May 9, 1983

This statement is presented on behalf of the American Federation of State, County and Municipal Employees (AFSCME), representing over one million state and local government workers across the nation.

AFSCME strongly opposes S. 916, the Timber Contract Relief bill, as introduced by Senators Hatfield and McClure. Oregon counties depend on the revenues generated by the timber industry. Six thousand (6,000) AFSCME employees work in these counties, Lane, Benton and Coos among them, and have felt first-hand the devastating effects of the faltering timber industry. S. 916 bails out the timber companies with contract extensions and terminations while it does nothing to aid the counties' deepening budget crises.

Oregon counties receive timber revenues from two classifications of forest lands. Revenue O&C lands which total 2.5 million acres in Oregon are controlled by the Bureau of Land Management. By law, the eighteen counties where these lands are located receive 50% of the proceeds of timber sales to be used for general purposes. In fiscal year 1981, this amounted to $193.3 million.

There are also 4.8 million acres of National Forest Land in Oregon. Counties receive 25% of these timber sales proceeds which must be used for roads and schools. Oregon collected $61.5 million from National Forest Land timber sales in 1981.

The timber industry was granted contract extensions by the Secretaries of Agriculture and Interior in 1980. These extensions have caused drastic reductions in revenue to county government. In 1982 alone, Bureau of Land Management extensions on O&C Lands cost Oregon counties $116 million -- a 40% drop in O&C revenues from 1981.

The loss of timber sales revenue has forced a significant reduction in government services and the deterioration in repair and maintenance of public facilities. Counties have laid off 28% of their employees since January 1980. Lane County alone has laid off 48% of its workforce, 294 employees. The remaining employees had their hours reduced and pay increases deferred. Coos County cut employee hours by 20%, closing government offices on Fridays and during lunch hours.

The contract extension and termination provisions in S. 916 will exacerbate the counties' current economic crisis. The result of these policies is that no timber would be harvested on the extended sales and thus no revenues generated for county operations. According to a CRS study, dated August 4, 1982, S. 916 would reduce timber revenue by $3 billion overall with county revenues reduced by as much as $700 million.

We believe that, in the long run, the whole contract bidding system of the industry should be reformed. Specifically, we would advocate shorter-term contracts, larger down payments, and payment schedules independent of performance.

In the interim, we would suggest the following amendments to S. 916:

- o Require a needs test of timber companies prior to extension or termination of contracts.
- o Redefine payments for contract terminations required under Sec. 2 so that payments are treated as receipts and are shared with county government.
- o Require the payments under Sec. 2 be made earlier than the fourth operating season. This modification will ensure

steady revenues to county governments.

- Eliminate Sec. 3 which permits purchasers to bid on a resale of contracts they terminated.
- Change Sec. 5 to require that terminated sales be rebid for short term sales (not to exceed 2 years) and further require early, regular payments.

In conclusion, AFSCME is sympathetic to the crisis facing the Oregon timber industry, and we believe that a fair and equitable solution to that crises must be found. However, that solution must include protections for timber - dependant counties in the state. We do not believe that S. 916 is the solution.

AMERICAN FORESTRY ASSOCIATION
balanced forest use
1319 Eighteenth Street NW Washington DC 20036

Subcommittee on Public Lands and Reserved Water
Committee on Energy and Natural Resources
United States Senate

A Statement By

Rexford A. Resler
Executive Vice President
The American Forestry Association

April 22, 1983

Mr. Chairman, my name is Rexford A. Resler. I am Executive Vice President of The American Forestry Association, a national citizens conservation organization formed in 1875.

We appreciate the opportunity to testify on S. 848 and S. 916 which would modify certain contractual conditions between the Secretaries of Agriculture and Interior and purchasers of federal timber.

First, I wish to address the unique situation which prompts this and other proposals for legislative relief.

My instincts lead me to believe that contracts entered between buyer and seller--in this case, purchasers of federal timber and the federal government--should not be subjected to tampering in mid-course. Changes of conditions which were understood at the time of sale invariably lead to inequities among parties who were competing under well-established rules. Those rules should not be changed, whether by legislation or exercise of Administration authority, without due regard to the consequences of disrupting a highly competitive market or for the inequities such changes may create among participants. These hearings and others, will no doubt serve to identify those adverse consequences.

Be that as it may, we believe that extenuating circumstances justify intervention to moderate the dire effects occasioned by economic conditions which few people, if any, could have predicted three to four years ago.

The record is all too clear on excessive unemployment in home building and in the forest products industry; on wide scale mill closures; increasing rates of bankruptcy; and the very real prospects of still greater business collapse, particularly

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among independent operators. In my 30 years as a forestry professional, I have never encountered the degree of concern, even outright fear, about the immediate future that I find today among independent operators and major corporations alike. While one might argue that those who bid, unwisely perhaps, to secure federal timber should now suffer the consequences of their decisions, I would argue that the government was an unwitting partner and in good measure responsible for the circumstances which brought on a major depression in the forest products industry.

One of those factors was uncertainty of supply of raw material. Successive Administrations have considered investments in forest productivity on the federal lands as an expense, not a long-term capital investment. As a result, investments that would produce ever-expanding supplies of federal timber, with full attention to realistic environmental safeguards, has been slighted consistently in Administration budget requests. Much of what has been achieved is the result of Congressional action to rectify the shortcomings of Presidential budget requests. Even so, the National Forest System has been offering timber sales for the past decade below the sustained yield capacity by 10 to 15 percent. If the proper investments had been made to increase growth, those sustained yield harvest levels could have been steadily increasing.

Add to that reality uncertainty about the availability of federal lands for timber production and other commodity uses, caused by legal and political hassles over the disposition of roadless areas, and one commences to see why competitive bidding got out of hand. I believe Congress must accept a share of responsibility for its reluctuance to bite the bullet--to decide what ought to be in the Wilderness System and what ought to be managed for non-wilderness purposes. Only Congress can resolve those issues.

A decade or more of rising inflation built in an expectation that purchasers of federal timber would be able to recoup on the desperation bids they were submitting. Many gambled on the continued effects of an inflationary spiral--and lost.

We have experienced major changes in the rules guiding thrift institutions which have affected the availability and cost of mortgage money. Estimates of annual housing starts for the decade of the 1980's in the range of 2-plus million, projected by both government and private resources, became conventional wisdom and influenced the attitudes and judgments of producers, investors, and market competitors.

As interest rates ballooned to the 20 percent prime rate, and as mortgage money shrunk, housing markets plummeted at unprecedented rates, drying up not only the housing industry but causing a major decline in markets for building materials. The drop in inflation, an event most urgently sought by us all, has exacerbated the serious problems faced by the entire forest products industry. The most serious problems, however, are associated with the federal timber sale contracts in the Pacific Northwest, many of which are economically inoperable under current market conditions, or conditions which may be realistically expected in the next two or three years.

If no action is taken to relieve the current situation, there will be survivors, of course, but I would expect to see a serious decline in mill capacity which would adversely affect consumer prices when the economy recovers and the pent-up demand for housing is released. I would expect to see a substantial consolidation of that production capacity in the hands of fewer large corporations. The high cost of capital will no doubt result in more consolidations over time, but that trend ought not be accelerated by government actions.

Because government policies and actions, or inaction as the case may be, are partly at fault--and because it is in our general interest to maintain a viable and competitive forest products industry--we conclude that some form of government action is not only warranted, it is urgently needed.

I am persuaded that prompt Congressional action is needed to relieve an untenable situation. Without the Administration's support, nothing of value will be accomplished in a timely manner. I hope that a workable plan can be developed with White House endorsement that will provide prompt relief.

First, contract term adjustments going beyond those permitted under the contract require legislation. Such adjustments have the drawback of putting off the problem until some future time and disrupting orderly development of future offerings. However, term adjustments for periods up to five years would permit purchasers to mix high-priced sales with newer and presumably lower priced federal sales, or timber from other sources including fee timber, thereby permitting purchasers to operate those adjusted sales when market conditions improve. So we support the logic of authorizing contract term adjustments under carefully prescribed conditions.

Secondly, although contract terminations without penalty are a drastic step used only once previously to my knowledge, we come to the conclusion, reluctantly, that contract terminations without penalty are warranted by current dire circumstances. The alternatives of (1) extensions of time, or (2) damage settlements on expired contracts, will not solve the immediate problem. It is our judgment that some portion of economically inoperable sales should be terminated as the most effective means for: (1) getting inoperable sales back on the market at operable prices; (2) salvaging the investment of the agencies in sales preparation work; (3) avoiding the high cost of damage appraisals and litigation and delay that would be incurred; (4) reducing the prospects of bankruptcies or takeover of independent operators; and (5) hastening the time when out-of-work people in the woods, mills, and dependent communities can be put back to work.

One can argue that the federal treasury would lose income as a result of foregoing damages on terminated sales. The likelihood is that most of the assessed damages would never be recovered anyway. Lengthy litigation would forestall collection under the "best of circumstances" and little is to be gained through bankruptcy settlements. The cost to the federal government of trying to collect those damages, the consequent effects on the general economy, and eventually on the consumer, leads me to believe that the apparent loss isn't worth the chips.

We favor writing off the loss, under carefully defined rules of law, for some appropriate portion of inoperable sales. The conditions should be prescribed in law as opposed to authorizing the Secretaries of Agriculture and Interior to define those rules. If, as we believe, this remedy is warranted as a matter of public policy, then those conditions ought to be defined in law.

We believe that such terminated sales should be metered back on the market as a part of the agencies regular sales program in ways and amounts that do not change or adversely affect markets in other parts of the country. If, as these terminated sales are brought back on the market, the Administration will support the advance preparation of new sales, it would be possible to expand the volume of timber prepared and held "on the shelf" so that for the first time in my recollection, the agencies could respond to surges in demand.

On a related matter of cash flow, discussion has centered around the need for treating earned purchaser road credits as cash, or at least authorizing the transfer of earned credits among sales on different National Forests. We do not favor treating earned road credits as cash whereby credits could be transferred to cover any cash obligation, but we do support the logic that earned credits be transferred to any sale being operated by purchaser to permit recovery of those front end costs.

Mr. Chairman, we have reluctantly come to a conclusion to recommend intervention in a free market system. We believe that legislation along the general lines we have discussed, should be tightly drawn, limited in time, and enacted at the earliest possible time. This ailing free enterprise system should be put back on its feet and the discussion of legislative "remedies" terminated.

We appreciate the opportunity to comment on this highly complex and controversial situation. We will be pleased to assist in any way we can to contribute to an equitable solution.

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JUNCTION CITY, OREGON 97448

April 7, 1983

The Honorable Senator James McClure
Senate Committee on Natural Resources
3106 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Senator McClure:

We are a small (45 employees), family owned sawmill. We don't own any timber lands, and are dependent upon public timber and open market logs from private lands. It has become increasingly difficult to buy open market logs from private lands, due to the purchase of these logs by exporters that ship them to Japan, China, Korea, etc.

We have managed to stay in business since 1950 because of our capital commitment to efficiency and modernization.

Our big problem is that even though we have faithfully bid on public timber sales (U.S.F.S., and B.L.M.) we have been unable to buy one for over seven years (prior to that we purchased enough to supply the majority of our log needs). The reason we haven't been able to buy a public sale is that we refuse to bid the unrealistic prices brought on by a shrinking allowable cut, and the greed and speculation exhibited by a number of firms in our industry.

While we have had to shut down on several occasions and have seen other small mills forced out of business for lack of logs, we have watched others bid two and three times the break even price on timber sales and amass two to five years timber supply (all public sales) under contract. Some were even bold enough to suggest that no one else would be able to buy a sale in "their area".

We have seen sales bid to unrealistic heights to "keep the other guy out", to "drop it on the other guy", and to "maintain the water level" (make sure the competition didn't get a sale cheaper than the last ones they bought).

The U.S.F.S. granted extensions on existing sales (because of the depressed economy) and the result was that the speculation continued, although at a lower level because of poor market conditions.

In all probability there are going to be more West coast mills going out of business, because of decreased allowable cut, fewer and smaller houses being built, and more production in the South. It would be a travesty of justice if the rules (contracts and penalties) were changed after the game was played, and those of us that played by the rules were forced out of business, while the speculators and hoarders remained.

We urge that NO relief be given on existing timber sale contracts, and any defaulted sales be immediately resold (that timber must get to the market place and not be held up). We all knew the risks, and our people need jobs too.

We had to shut down our plant March 3,1983 because we couldn't buy logs at a break even price with the current speculation (we hope it's temporary).

We have talked to several other small mills in our area that share our views, but will not publicly express their opinions for fear of retaliation by firms wanting relief.

Sincerely,

Giff Powell

Gifford Powell, Gen. Mgr.

cc: Senator Howard Metzenbaum

April 15, 1983

Senator Howard Metzenbaum
SR363 Russel Senate Office Bldg.
Washington, D.C. 20510

Attn: Doug Lowenstein

Dear Sir:

It is my understanding that the Committee on Energy and Natural Resources will be holding hearings on Senator Hatfield's bill on Timber Sale Contract relief next Friday, April 22, 1983, and as I will not be able to attend I would like to take this opportunity to express my views.

Our company, Swanson Bros. Lumber Co., was founded in 1937. It is a small business (less than 100 employees) and a closely held corporation. We are the largest employer and tax payer in our little community of Noti, Oregon.

We are also heavily dependent on public timber, mainly B.L.M.

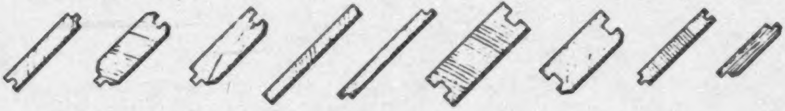
We like to think of ourselves as progressive, responsible operators. We have continually operated over all these years without shutdowns or lay-offs and continue to do so to this day.

However, we have seen our situation rapidly deteriorate over the last few years from a position of having two or three years timber supply under contract to the point where we logged our last sale about two years ago.

At this point we were faced with the prospect of going out of business for lack of logs. Nobody offered to bail us out or even come to our aid. Many good mills in this area were in the same situation and several of them went out of business because they could not buy any timber sales.

I will enclose a recent article from the Eugene Register Guard from a partner in one of the mills that were forced out.

RAILWAY AND CAR MATERIALS • INDUSTRIAL CLEARS



We felt then and still feel that when we enter into a contract we will have to live up to it and we bid our timber sales with that in mind. Our company has logged the higher priced sales we were able to buy and took our lumps.

All the moves the Government has taken up to this point has hurt us as well as the other responsible operators in this area. When the Government grants extensions it lets all the timber hoarders come back into the market for more timber thereby competing with the companies that are short of timber because they refused to gamble.

Our problem was not brought on by the recession but by pre-clusive and speculative bidding that was being engaged in by the very people that are now weeping crocodile tears and crying for bail-outs.

Their greed has hurt the entire industry. They have put us in a position where we cannot compete for the existing markets against the Canadians or the southern producers.

In our opinion this bill will only make the situation worse. If we allow the ones who got us into this mess to walk away scot free it is naive to think they won't return with renewed faith that they can't lose.

You should realize that many of these same operators that are so persuasive for this kind of relief have made huge wind-fall profits over the last several years by their speculative operations.

In fact one of the main witnesses in favor of this bill has made the remark in several industry meetings that he is in a "Fat cash position and can afford to set out 5 years if that is what it takes". He did not go down to the government and offer to share, why should he expect to be bailed out when he loses.

He is also not sharing his cash reserve by keeping his employees on the payroll as they were shut down for months.

Even today, sales are being sold almost daily in this area and all of them are being bid to well past the break-even point and most of this bidding is by the very same companies that want their sales extended or terminated.

Senator, I would urge you to drop this bill. If you feel you must continue with it I would urge you to put some tough requirements on it, such as:

1. The operator must terminate all his sales, not just the losers.

2. He should be barred from re-bidding any of his terminated sales and possibly any government sales for some specified period.

3. He should submit to an audit to prove imminent bankruptcy if he is forced to live up to his contract, not just that he will lose money on it.

4. There should be a stiff monetary penalty for termination, partially to compensate the public for their loss and partially to deter the offender from making the same mistake again.

One last suggestion Senator, and that is you try to abolish the practice of granting long term capital gains treatment on government timber.

All timber purchasers, ourselves included, are encouraged by the tax treatment to hang onto our sales for a least one year prior to logging. The incentive is the wrong way. Rapid harvesting should be encouraged, not discouraged.

Most of the resistance to short term timber sales is based on this one point altho I doubt if it will be given as a reason at your hearing.

I am a strong advocate of long term capital gains on private timber due to the long time needed to raise a crop and the risks involved, but there is something immoral for an operator to be given this break on government timber where he has taken none of the risk.

Thank you for giving me this opportunity to express my feelings on this matter.

Yours truly,

SWANSON BROS. LUMBER CO., INC.

Sam Konnie

Sam Konnie, Vice-President

SK/dh

CC: Senator James McClure

Testimony of Charles E. Nichols, General Treasurer and Director
United Brotherhood of Carpenters and Joiners of America
Submitted to the Public Lands and Reserved Water Subcommittee of the
Senate Energy and Natural Resources Committee

April 22, 1983

My name is Charles E. Nichols and I am General Treasurer and Legislative Director of the United Brotherhood of Carpenters and Joiners of America. We have over 800,000 members, the large majority of whom are employed in the construction industry and in industries that supply or are otherwise closely tied to home building - lumber - plywood, cabinets, millwork, furniture, and other wood products. Because many of our members are so deeply involved in the wood products industry, I am very pleased that the Committee is holding these hearings.

The housing industry and the lumber industry, as we know, are just coming out of a depression. For the past three years the market for wood products has been nothing short of disastrous. 1982 edged out 1981 as the worst year for homebuilding since 1946. Only 1.07 million housing units were built last year. The effect of that poor market was felt in many communities, especially in the Northwest, when sawmills and plywood mills, often the major source of employment in town, were forced to close or curtail production. Nationwide, unemployment in the lumber and wood products industry at time exceeded 20 percent. But in those towns the unemployment rate sometimes exceeded 60 percent. The hardship caused by mill closures and the damage to the social fabric of the communities is hard to appreciate for anyone who has not experienced it.

In recent months there has been a recovery in homebuilding that is most encouraging. In the first quarter of 1983 housing starts were 87 percent above their level for the first quarter of 1982. Most lumber and plywood mills have gone back to work and the industry is now operating at about 90 percent of normal levels. But the housing start rate of about 1.7 million units per year that we have seen in recent months are still far below the rates the industry was led to expect for the 1980's. Those expectations resulted in bids for timber that would have been justified by the levels of demand for wood products that had been forecasted.

Even with the recent recovery in the market, the prices for lumber and plywood are below there 1978-79 levels and are far below prices that would have been justified by the expected homebuilding of the 1980's. Many companies are now caught in a cost-price squeeze that will force them to close unless they can get adequate supplies of lower priced timber. Given the relatively fixed supply of timber in the Northwest, the only way to get enough lower priced timber to continue operations is for the price on existing contracts to be somehow changed, that is why the United Brotherhood of Carpenters and Joiners of America supports S.916. We see the bill as a way to allow mills to continue creating the employment opportunities needed in the communities that had been so devastated in the past three years.

Statement of the
Edward Hines Lumber Company
Before the
Subcommittee on Public Lands and Reserved Water
Committee on Energy and Natural Resources
United States Senate
April 29, 1983

The Edward Hines Lumber Company ("Hines") is an integrated wholesaler and retailer of lumber and other building material products, headquartered in Chicago, Illinois. In 1928, Hines constructed its first sawmill in Eastern Oregon, at the request of the U.S. Forest Service, to process timber cut from the Malheur National Forest. Since that time, Hines has been a major purchaser of timber from Federal lands, operating sawmills and related manufacturing facilities in Arkansas, Colorado, Idaho, Mississippi, Oregon, South Dakota and Wyoming. In Eastern Oregon, Hines facilities have included sawmills and other facilities in Hines, John Day, Mt. Vernon and Seneca, Oregon. At the time Hines agreed to build its first Oregon mill, the Forest Service made a commitment to Hines to manage the area's Federal timber resources so as to permit a permanent, well-balanced lumber operation. From the outset, Hines' Western sawmill facilities were almost totally dependent on Federal timber bought at auction from the Forest Service.

The Current Problem

During the past decade, a number of circumstances, attended by considerable Federal involvement, have combined to produce a crisis of high timber contract prices and low demand, resulting in unworkable contracts between private companies and the U.S. Government:

oo The biggest single source of timber and plywood in the United States is the Pacific Northwest. Over half the timber in this area is publicly-owned and administered as part of the national forest system by the U.S. Forest Service, or by the Interior Department's Bureau of Land Management. Because of the Government's dominant position in the market, most companies in the area are heavily dependent on Federal timber for their raw material.

oo Despite the increasing demands of a robust housing industry and notwithstanding diminishing private timber sales and uncut capacity in the national forests, Federal timber sales remained constant during the 1970's. Since supply from the national forests -- particularly in the far West -- was below mill capacity, timber prices rose dramatically in anticipation of the strong demand for housing projected by Government and private sector alike for the decade of the 1980's. As a practical matter, the Government controlled the price of timber since it controlled supply. Moreover, the Government provided or endorsed the economic data on which demand was estimated and bids were based.

oo The double digit inflation of this period was followed by a period of unprecedented Federal deficits and a policy of tight money supply which resulted in a sharp drop in housing construction, notwithstanding earlier forecasts. The benefits of these tight money policies may, indeed, be widely shared if in fact inflation is under control, but the burdens of this achievement have been visited unduly upon the timber industry.

oo Housing starts declined from nearly two million units in 1978 to 1.0 million units in 1981 and 1982, the lowest level since World War II, resulting in a drop in demand for lumber. Even if housing starts regain the 1.8 million level by 1985, there will be contracts for upwards of 17 billion board feet of timber that cannot be cut profitably or practicably, as the market, even under the best forecasts, will be unable to absorb either the volume or the cost of the timber required to be cut by these contracts.

oo The foregoing circumstances of inflation and uncertainty were augmented by two other factors resulting from Federal policies:

o The pressures created by the Federal government's development of Wilderness lands policies and accompanying set-asides injected an additional measure of uncertainty into the overall supply/demand situation, as well as particular stresses in localities historically relied upon for supply by individual operating timber mills.

o The Small Business set-aside program, with its mechanisms for establishing future quotas based on past contract awards, injected another element of uncertainty in the marketplace. This, too, added upward pressure to the bid process. Companies above a certain size were barred from obtaining access to set-aside acreage, and the proportion of set-asides in future sales were based on the amount of small business purchases at current sales. Again, companies were compelled to bid high prices just to assure sufficient supply to keep their mills operating.

o Without dwelling on the merits or demerits of these policies and their underlying Federal goals, the achievement of such national purposes should not be based on disproportionate disadvantage to one particular industry sector, in this case the timber industry.

The facts are that the Pacific Northwest timber industry faces a major crisis which will result in further mill closings and dramatic increases in unemployment, at a time when unemployment is already at unacceptable levels. It is ironic that although there is a wide expectation that the housing industry will lead the national economic recovery, this key element of the housing recovery remains constrained by this remediable situation.

Some in Government have been working hard to find a reasonable solution to the problem. Yet the Administration continues to maintain that it has no authority to modify or terminate these timber contracts, notwithstanding expected higher costs to the Government of attempting to enforce the contracts, as opposed to taking remedial action. Further, failure to modify these contracts will frustrate the statutory objectives of managing the national forests to best meet the needs of the nation by assuring a continuous and ample supply of forest products and stabilizing communities, forest industries employment and taxable forest wealth, as required by the National Forest Management Act and the Multiple-Use Sustained-Yield Act of 1960. Additionally, the refusal of the Administration to even consider a solution flies in the face of the massive Government involvement in the marketplace, as described above. In a normal commerical situation, where responsibility for the infeasibility of a contract is shared by the contracting parties, such contracts are normally renegotiated in good faith among the parties. Renegotiation or some form of contract relief from a portion of these infeasible contracts is fair, both to the parties and to the U.S. Government.

The timber companies are not asking for a bailout or even for complete relief. They are asking only that the burden they are asked to bear not be disproportionate, in view of the U.S. Government's unquestionable shared responsibility for the current unanticipated circumstances, and in view of the disadvantages to the Government of withholding relief.

Unquestionably, a part of the problem resulted from unwarranted speculation in timber, and the Forest Service is to be congratulated for taking forthright steps in administering the timber marketing program to prevent such influences on timber prices in the future. The fact is that the timber mill operators faced a Hobson's choice during the inflationary period that led to the current situation. Operators could either bid unrealistically for timber in order to assure supply and future timber quotas needed to continue mill operations. Or they could face the prospect of having no timber supply and drastically foreclose access to such supply in the future.

Early in 1982, after long and careful deliberations, the Hines' Board of Directors concluded that it would be more prudent for the Company tc concentrate on the opportunities which exist in the distribution and retailing of lumber and other building material products. Accordingly, last year, Hines began divesting all its sawmill operations, including its Western facilities. The sale of these facilities will be completed within the next month and the mills will be operated as small businesses. In the interim, Hines has continued to operate the mills, both to assure their continued value and to maintain Hines' tradition as a responsible employer. Hines retains liability on a number of unworkable timber contracts.

The Solution

S. 916

In recognition of the equities involved and the public interest in maintaining order in the timber markets, several states have already acted to permit similarly situated contracts for the sale of timber on state-owned lands to be renegotiated. The benefits of these actions to the states, counties, public and industry have been testified to earlier in these proceedings.

On the Federal level, 21 Senators have introduced legislation, S. 916, which would provide an orderly mechanism for preserving the Northwest Federal timber markets. S. 916 recognizes the changed market conditions and balances the interests of the Government with those of the private sector. Specifically, S. 916 would permit the termination of other contracts, and allow the effective use and transfer of credits earned by purchasers for the construction of national forest roads. S. 916 reflects a recognition that it is in the best interests of the Government to resell those Federal timber contracts that, as a practical matter, are no longer viable and can not be performed or enforced without severe impacts on the industry, including certain bankruptcy for many. More importantly, S. 916 recognizes the strong and overriding National interest in maintaining a fair and orderly market for Federal timber, and in avoiding unnecessary and tragic hardships, particularly to the people, the communities and the companies that depend on Federal timber sales and whose dependence has been encouraged by policies mandated by Federal law.

The bill is not designed to afford complete relief to the industry. While 40 percent appears to be a high percentage, the remaining 60 percent is still a serious problem for most operators. On this limited basis, the bill properly affords relief to all Federal timber purchasers, without regard to unworkable -- and unfair -- "size" or "needs" tests, recognizing that the many small shareholders of publicly-held timber companies are just as severely impacted and just as deserving of equitable treatement as the owners of so-called "small" companies.

Finally, we do not consider the bill a Federal bailout. S. 916 will not cost the Government anything. Future revenues from these sales would probably never come, due to the fact that the sales are high-priced and not economical to cut. The Government will benefit by an orderly termination of contracts and a resale program to keep these timber sales active. If S.916 or legislation similar to it is not passed, there will be massive costs to the Federal government due to economic chaos that will result from the many predictable defaults. The Federal government and the U.S Forest Service need these conversion facilities to carry out a proper and beneficial forestry program. Their customers are vital to this program.

April 21, 1983

Mr. Chairman:

I am a self-employed logger; was working with my two sons, age 21 & 25. I started logging after retiring from the U.S. Army with 26 years and 3 months on active duty. The reason for my statement today is to testify on behalf of the Timber Relief Act to pass, so some relief will be soon in sight for the timber industry. Above all, that small independent loggers will not go under like I did. I lost my skidder, 2 trucks and one car, almost my home.

I bought two Timber sales on Fort Lewis, January and February 1981. Shortly thereafter, the timber industry took a bad turn. The prices went way down. My contracts termination dates were set for May 1982. I was unable to keep the terms of the contracts; therefore, we asked for an extension but without additional money we could not get it. Also, the extension was only until October 1982. My total investment in the two timber sales is $40,761.97 for bid deposits, plus $10,000.00 each for performance guarantee bonds. Without the additional money, the Corps of Engineers, Seattle District, took my sales away and resold them. Also, the new buyer was given an 18 month time period to log it out. I believe that the Corps of Engineers could have given me the same deal. The Forest Service gave extensions so the mills would not lose their money. I also had one other sale called Eastside Timber Sale, which could not economically be logged out at this time. We were forced to log it out or lose our bid deposit, plus performance bond. My loss from this sale was $117.00 per thousand board feet. The estimated amount of timber was 165,000 board feet, but it logged out at 290,000 board feet. Due to all this, I am again behind on my mortgage payments, in the process of losing my last car. I have no work, no funds to bid on any timber sales; there is no other work to be had.

I hope and pray that any kind of a Timber Relief Act Bill be passed, and hope it includes D.O.D. Timber Sales, here on Fort Lewis, Washington.

Sincerely yours,

Juan P. Garcia

MICHAEL A. McKEAN
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April 19, 1983

The Honorable Senator Malcolm Wallop
United States Senate
Washington, D.C. 20510

Dear Senator Wallop:

I represent a group of sawmill owners and small loggers in the Northwest who seek to change certain practices of the Forest Service relating to sales of federal timber. The spark which brought my clients together is the recent reintroduction of legislation by Senator Mark Hatfield to provide "relief" from Forest Service timber contracts for certain recent contract purchasers. In a speculative binge, many buyers contracted to pay prices for standing timber which, in today's market, would not be profitable. They seek relief.

We oppose the major thrust of the "relief" legislation. Our explanation necessarily deals with a broad range of issues relating to the timber industry. This letter will deal with the issues of Japanese tariffs against American lumber products, accessibility of Forest Service timber to small mills or loggers and sales procedures of the Forest Service. Senator Hatfields's bill is given little chance for success. That will leave the Forest Service holding billions of dollars worth of defaulted timber sales contracts. The Forest Service must then take action of some kind against the defaulters or its contracts will never again have meaning as enforceable documents. We shall propose a simple, workable, legislative or administrative solution which will provide limited relief without rewarding speculators - a solution which will prevent uncontrolled timber speculation in the future and which will guarantee equal access to federal timber by large and small operators.

Let me begin by explaining to dependence of my clients on federal timber sales. Washington State is peculiar as the last great supplier of round logs (unprocessed raw logs) to the Orient. Canada, Oregon, Idaho and California all prohibit government owned timber from being exported as round logs, thus encouraging some domestic processing of the log prior to export and expanding domestic employment. Similarly, all federally owned timber must be domestically processed. Privately held timber is not subject to such control.

Washington State is also peculiar because our timber is held by a small number of owners. A handful of multinational corporations and the State of Washington own nearly all of our timber. Because of unfair, and anti-free trade policies of Japan, most of the private and state owned timber is exported as round logs, leaving only the Forest Service sales to create an employment base for domestic processing. Unless Japanese tariffs subsidizing round log imports are eliminated, our area's logs will continue to flow to the Japanese market. And until the tariff imbalance is corrected (it has not been for 20 years), my clients' access to timber is dependent upon purchases from the Forest Service.

Japan follows a national policy of employing many of its people in the processing of raw logs. Most of this employment is in cottage industry type mills far less productive and less efficient than American mills. This employment policy requires two things: First, a large supply of raw logs which Japan does not have; second, protection of the Japanese finished product from lower price American processed lumber. The net result in Japan is artificially high prices for their domestically produced lumber goods. The Japanese can pay an artificially high price for an American log because the log is then processed and sold for an artificially high price in a market protected from American competition by Japanese tariffs. The Japanese economy "buys" employment in its sawmill industry by paying high prices for its own domestically processed lumber. But employment as a goal is obtained.

On our side of the Pacific, Japan's anti-free trade policy toward American processed lumber has severe effects:

(1) American produced lumber cannot compete in Japan. Tariffs price our goods out of reach. Thus, more efficient American mills suffer and American mill employment is reduced.

(2) Because the Japanese economy is geared to accept high lumber prices in return for employment, the Japanese will pay a higher price for an American saw log than the American mill can pay. In this country, the price of the finished product seeks its own free market level, thus dictating the price of the log. The artificially high and tariff protected price of lumber in Japan allows the Japanese to bid logs out of reach of American mills.

The result is that large private timberland owners - most of whom are also large mill owners - can obtain more money by selling raw logs to Japan than by selling them to their own mill division or to other independent American mills. Therefore, vast amounts of logs which could be processed efficiently in this country are beyond the reach of American mills - we have exported jobs to Japan.

There is no issue of greater concern to the independent mill owner in Washington State than access to timber. With the bulk of corporate and state owned timber flowing to the Orient, the independent mill owner or logger with no timber holding is dependent upon federal timber sales - the only thing left for the domestic producer. But here again, Forest Service practice hurts the independent mill owner. Forest Service regulations do not permit an exporter of logs (generally a multinational corporation with huge private timber holdings) to "substitute," i.e., buy Forest Service timber to process domestically as a substitute for his own timber which he elects to export. However, the practice of "third party substitution" has defeated the intent of the regulation. Prohibited by the substitution rule from buying Forest Service timber directly, large exporters in our area have achieved the prohibited result through the use of a third party. These third parties - really middleman speculators - buy the Forest Service timber in their own name and then resell it to the exporter for his domestic use. These speculators are now holding thousands of millions of feet of Forest Service timber on defaulted contracts - they out bid my clients in an attempt to corner the limited market in this state and now they lead the cry for "relief" legislation.

In the Northwest, certain timber buyers are well known shills for the multinational exporters. For long periods of time, they have bid all Forest Service sales to come on the market, in effect ensuring an ever increasing price for their logs by literally cornering the market. Many mill owners were caught in this bidding spiral as they chased upward the higher and higher prices generated by the speculators. Buyers were committing to far more timber than they could use. The recent plunge in timber prices has left both speculator and mill owner holding the bag on purchase contracts which are now very unprofitable, and on which many buyers have defaulted.

The speculator is at fault, but so is the sales mechanism used by the Forest Service, without which the speculator could not speculate. Essentially, Forest Service timber sales are run like an unregulated stock market. As the Securities and Exchange Commission long ago discovered, a stock market with no enforced margin requirements can be ballooned up by speculation all out of proportion to reality. Timber buying is a game of minimal margin requirements where a nickel player can bet big dollars, corner inventories far in excess of his ability to consume, and create prices artificially above the real market. That has all happened recently. It is history. The speculator and some mills who chased or became speculators are sitting in a very leaky boat asking for "relief."

The proposed Hatfield legislation is more than "relief." It is special legislation which would protect and reward a small minority of the worst speculators while making no change to the purchasing system. Put simply, the bill would let defaulting purchasers give back to the Forest Service 40% of their bad buys and would give them a 5 year extension on the balance, in effect extending the term of their bet long enough as to guarantee that the bet will be a winner.

Put yourself in the position of my clients for a moment. They too have on occasion paid too high a price for Forest Service timber. But a contract is a contract. They cut the timber and processed it at a loss, but they have never defaulted because they did not commit to buy amounts beyond their ability to consume. At every timber sale my clients go to, they meet and bid against the very speculators whose defaults are now holding more than a billion board feet of timber off the market - the very same speculators who made bad business decisions and overbought their inventories at the expense of my clients. These same speculators with breached contracts are bidding the price up in Washington State while lobbying for relief in Washington, D.C. To my clients this is no different than a bank robber out on bail robbing banks to pay his attorney's fees. To give the speculator back 40% of his bet and then to extend the balance of his bet 5 years is not relief, it is a gift.

We believe the President and the Department of Agriculture could intervene with administrative relief at the agency level which would reform the system and provide a limited one time dose of relief to mill owners and speculators.

We propose this solution:

(1) One time only, let any holder as of January 1, 1982, of Forest Service timber contracts give back as much as he wishes, but that person forfeits his bid and performance bonds on the returned sales. The Forest Service would resell the returned timber but would not sue for any deficiency.

(2) All sales which are not returned, shall be extended for 12 months and the purchase price shall be ratably paid monthly over the 12 month period.

(3) All new Forest Service sales shall have a new "pay as you go" payment schedule - in effect a margin requirement. Timber payments shall be made monthly, prorated over the term of the purchase contract. All other current Forest Service rules would apply. Thus a $1,200,000 sale on a 12-month contract would cost the buyer $100,000 per month. Of course, if the buyer cut $100,000 worth of timber in any month, that would apply against the monthly payment. Cutting $200,000 worth of timber would require a $200,000 payment in that month as the rules now require. Normal one year extensions as now granted could be given, but the timber would be paid for by the end of the original term - the extension would apply only to the deadline for removal of the timber. The formula for the minimum monthly payment would be:

$$\frac{\text{Stumpage price x volume of the sale}}{\text{Months of the Contract term}} = \text{Minimum Monthly Payment}$$

Granted, this proposal limits a buyer to that amount of inventory which he can reasonably finance or cut and use, but where is it written that timber buyers should have the inventory costs borne by the government. No other business has that luxury. It should be noted that stumpage (the price of the standing timber) is a small cost of the delivered log at a mill. Up to 75% of the cost of a delivered log is in wilderness roadbuilding, logging and transport of the log. We see "pay as you go" as being a means of creating a market of "buy as you need" and thus eliminating the speculators. We don't break him, we just let him retire with past winnings.

The benefit of this plan would be great:

(1) Mill owners and speculators alike would receive relief at the cheap cost of loss of bonds. They could not be unhappy for many face bankruptcy if the contracts were to be enforced according to their terms.

(2) Inventory would be limited by the monthly payment plan to the buyers financial capacity. Never again would there be a speculative binge leading to an industry-wide default. Mills would not be forced to chase a speculator for he has been retired by the fact of reasonable inventory costs. The days of overstocking inventory at no cost in the hope of a windfall gain would be over.

(3) The government would be assured of steady predictable income.

(4) Regularity of cutting encouraged by required monthly payments would help maintain the Forest Service's sustained yield schedules, as well as leveling out Forest Service work in slash disposal, erosion control, planting, scalping, etc.

(5) The requirements that each sale pay its way monthly would be a boon to the small logger or mill owner. Currently, the big timber buyers can buy and hold dozens of sales at no cost. If each sale required monthly payments, a buyer could only buy those sales which he could log on a current basis to make the monthly payments. It is far easier for the large company to buy one large ten million foot sale and keep logging it to make the payments, than to buy 10 one million foot sales and keep 10 logging operations going to make the required monthly payments. The natural effect would be to increase the accessibility of small sales to small operators.

This proposal does not solve the root problems, trade relations with Japan and the loophole of third party substitution, but it does more equitably spread the burden. This proposal would grant limited relief, end speculation, put all parties on a new and more equal footing in their access to Forest Service timber and increase employment in the Northwest.

I am compelled to make one last observation about my clients. They do not seek any protection from competition. Their mills have operated for the past two years in the worst of times. They have sustained themselves and their employees because they are efficient. While the huge multinational mills have been shut down, my clients operated profitably. Year in and year out they are hurt by Japanese subsidiaries of raw log imports and only ask minimum changes in Forest Service procedures to equitably spread this burden.

We are available to further discuss these issues with your staff at any time.

Sincerely,

Michael A. McKean
Attorney at Law

MAM/vg